



# STATE OF NORTH CAROLINA

**DEPARTMENT OF INSURANCE**  
**FINANCIAL RELATED AUDIT**  
**TRAVEL**

**AUGUST 2013**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

## **EXECUTIVE SUMMARY**

### **PURPOSE**

This audit evaluates controls surrounding Department of Insurance (Department) travel policies and processes and tests a sample of travel expenditure to determine if they are in compliance with State and agency travel regulations.

### **BACKGROUND**

The Department of Insurance provides services to the people of North Carolina by regulating the insurance industry, licensing insurance professionals, training fire and rescue personnel, and administering the state building code. Travel is a necessary part of the job for many of the approximately 400 Department employees. Travel rules and regulations are set by the Office of State Budget and Management and the Department.

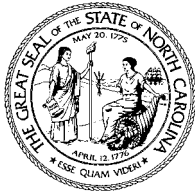
### **KEY FINDINGS**

- A review of the top travelers at the Department identified two employees with excessive or unnecessary costs of about \$3,800 during 2012.
- The Department could have saved about \$13,400 if state cars were assigned to top travelers during 2012.
- The Department is not in compliance with several Office of State Budget and Management and Department travel policies. A random sample of 45 travel invoices found 21 instances of noncompliance.

### **KEY RECOMMENDATIONS**

- The Department should seek reimbursement from the employees for the overstated miles and consider taking appropriate disciplinary action.
- The Department should continue to identify its top travelers and offer them state cars. If the Department does not have cars available, then it should reassign cars so that employees expected to drive the most are offered the option of driving a state car.
- Supervisors who approve travel reimbursement requests should ensure that the travel is properly documented and that all amounts are reasonable and allowable.

The key findings and recommendations in this summary are not inclusive of all the findings and recommendations in the report.



**Beth A. Wood, CPA**  
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**AUDITOR'S TRANSMITTAL**

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August 28, 2013

The Honorable Pat McCrory, Governor  
The General Assembly of North Carolina  
Wayne Goodwin, Commissioner, North Carolina Department of Insurance

This report presents the results of our financial related audit at the North Carolina Department of Insurance. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings, Recommendations, and Responses section of this report.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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## **BACKGROUND**

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As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at the Department of Insurance. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

## **AUDIT SCOPE AND OBJECTIVES**

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The general objective of this financial related audit was to identify improvements needed in internal control over selected fiscal matters. Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Errors or fraud may nevertheless occur and not be detected because of the inherent limitations of internal control. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or that compliance with policies and procedures may deteriorate. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Our audit scope covered the period from July 1, 2011, to June 30, 2012 and included selected internal controls for travel. Specifically, we tested for compliance with state and agency travel regulations and evaluated the appropriateness of travel for the top agency travelers.

## METHODOLOGY

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To accomplish our audit objectives, auditors gained an understanding of internal control over matters described in the *Audit Scope and Objectives* section of this report and evaluated the design of the internal control. Auditors then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that provide evidence about our audit objectives. Specifically, auditors interviewed personnel, observed operations, reviewed policies, analyzed accounting records, and examined documentation supporting recorded transactions and balances, as considered necessary in the circumstances. Whenever sampling was used, auditors applied a nonstatistical approach. As a result, the results cannot be projected to the population.

As a basis for evaluating internal control, we applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components: (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## RESULTS AND CONCLUSIONS

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The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. These items are described in the *Audit Findings, Recommendations, and Responses* section of this report. Management's responses are presented after each audit finding and in the appendix. Management agreed with our recommendations. We did not audit the responses, and accordingly, we express no opinion on them.



# AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES

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## 1. EMPLOYEE TRAVEL IRREGULARITIES

A review of the top travelers at the Department of Insurance (Department) for the fiscal year ending June 30, 2012, identified two employees (Employees A and B) with combined excessive or unnecessary costs of \$3,817. Specifically, the employees overstated miles driven by a combined 6,132 miles.

Overall, Employee A recorded 167 trips, claimed 31,193 miles driven, and received \$13,413 in mileage reimbursement for personal car use during the fiscal year. Employee B recorded 122 trips, claimed 29,251 miles driven, and received \$16,234 in mileage reimbursement for personal car use during the fiscal year.

### Miles Driven Overstated

While reviewing the employees' travel reimbursement forms, auditors noted instances where the miles claimed appeared excessive and the employee did not provide any mileage calculations to support the mileage claimed on their reimbursement forms. Using internet based mapping software and travel addresses provided by the Department, auditors determine that the mileage claimed by the employees were indeed higher in those instances.

### Employee A

For example, Employee A took 32 trips between his home duty-station in Jacksonville, N.C., to East Carolina University in Greenville N.C., claiming on average 180 miles each trip. However, using the addresses provided by the Department and internet based mapping software, there are 142 miles between the addresses, a difference of 38 miles (21%) per trip. The route selected by the mapping software suggests US Highway 258 as the most efficient and direct route between the two destinations.

In another instance, the employee traveled between his duty-station and the University of North Carolina Wilmington, claiming 157 miles for the trip. Using the addresses provided by the Department and internet based mapping software, there are 100 miles between the addresses, a difference of 57 miles (36%) for the trip. The route selected by the mapping software suggests US Highway 17 and is clearly the most direct route between the two destinations.

After recalculating the mileage for the entire year, auditors identified 120 instances (71%) where the miles claimed by the employee were significantly higher than the results of the auditor's calculation.<sup>1</sup> The excessive miles totaled 4,938 or about 41 miles per trip, and resulted in the over reimbursement of \$2,123.

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<sup>1</sup> For the purposes of this analysis, significantly higher is defined as exceeding 20 miles and 10% more miles using the same departure and arrival addresses and the same mapping software used by the employee.

## AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES

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When asked about these discrepancies, the employee stated that he sometimes selects routes different from the suggested route to avoid traffic, travels to additional locations that are not documented, or must travel out of the way for lunch due to personal reasons.

State travel regulations specify that “an employee traveling on official state business is expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds. Excess costs, circuitous routes...unjustified, or for the convenience or personal preference of the employee in the performance of official state business are prohibited.”<sup>1</sup>

### **Employee B**

Excessive mileage was noted on one specific trip made by Employee B. The employee took a trip from his home duty-station in Charlotte, N.C. to Indianapolis, Indiana via Winston Salem, N.C., claiming 1,626 miles for the trip. However, using the addresses provided by the Department and internet based mapping software, there are 1,276 miles, or 350 miles (22%) less than reported by the employee. This trip accounted for overcompensation in the amount of \$194 and represented approximately 30% of the employee’s overstated mileage during SFY 2012.

When asked about this discrepancy noted in this trip, the employee stated that he took a wrong turn and did not realize the mistake until well over an hour later, adding approximately 3 hours to his trip.

After recalculating the mileage for the year, auditors identified 24 additional instances (about 20%) where the miles claimed by the Employee B were significantly higher than the results of the auditor’s calculation.<sup>2</sup> The excessive miles totaled 1,194 miles, or about 48 miles per trip, and resulted in excess reimbursement of \$663.

### ***Recommendation:***

The Department should seek reimbursement from the employees for the overstated miles and consider taking appropriate disciplinary action.

The Department should review the employees’ travel reimbursements for the fiscal years ending June 30, 2011, and June 30, 2013, to determine if miles were overstated. The Department should take appropriate action based on the results of its review.

The Department should require employees provide documentation with travel reimbursement requests that adequately supports the locations visited by the employee and the routes taken to arrive there.

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<sup>1</sup> Section 5.0.2 of the State Budget Manual issued by the Office of State Budget and Management.

<sup>2</sup> For the purposes of this analysis, significantly higher is defined as exceeding 20 miles and 10% more miles using the same departure and arrival addresses and the same mapping software used by the employee.

## **AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES**

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Supervisors should verify that miles claimed for reimbursement are reasonable based on the trip. The Department's controller's office staff should spot-check mileage reimbursement requests for accuracy.

### ***Agency Response:***

The Department will perform a review of the travel reimbursements for these employees for the fiscal years ending June 30, 2011 and June 30, 2013 to determine if miles were overstated in addition to the mileage discrepancies identified by the audit. Based on the results of the review, the Department will take appropriate action. In addition, the Department will request that travelers provide a description of all locations visited and provide an explanation for any unusual situations where the mileage is not reasonably consistent with typical internet based mapping software.

The Department will remind supervisors that their signature on the travel reimbursement form verifies that they compared the employee's work locations/destinations to the travel reimbursement and that they verified that the information on the form is accurate including any reimbursement claims for mileage. In addition, the Department will also require that the Controller's Office staff perform periodic reviews of travel reimbursements to determine if the trip mileage being reported is accurate.

## **2. ASSIGNING STATE CARS TO TOP TRAVELERS WOULD SAVE MONEY**

The Department of Insurance (Department) would have saved about \$13,400 if state cars were assigned to top travelers during the fiscal year ending June 30, 2012.

### **No State Cars Available**

Although certain Department staff travel extensively in the performance of their jobs, some top travelers are not assigned state vehicles to use when traveling. Instead, they are reimbursed for miles they put on their personal vehicles when traveling for the Department. A total of eight Department employees drove more than 12,600 miles<sup>1</sup> each for the fiscal year ending June 30, 2012. Six of the top eight Department travelers worked in the Risk Management division.

The six Risk Management travelers logged about 147,200 miles during the year and received around \$63,300 in reimbursement for the miles driven in their personal vehicles. While the Department currently has about 74 cars assigned to it, the Controller's Office reports that there are no state cars available to be assigned to the Risk Management Division.

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<sup>1</sup> Section III (A) of the Motor Fleet Management Regulations requires vehicles permanently assigned to individuals to be driven a minimum of 3,150 miles per quarter. (3,150\*4 quarters = 12,600 miles per year).

## **AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES**

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As recently as February 2013 and October 2010, the Division requested state cars to be assigned to their top travelers. In both cases the Division was told that there were no cars available by the North Carolina Department of Administration, Motor Fleet Management Division.

Because state vehicles were not available, the Division was proactive in finding ways to contain travel costs. The Division chose to reimburse inspectors who used their personal vehicles the same amount that it cost to have a 4x4 state vehicle permanently assigned.<sup>1</sup> Inspectors in this division would require 4x4 type vehicles due to the possibility of traveling in off-road situations. Management reports that the Division's actions in adjusting its mileage reimbursement rate results in savings of approximately \$23,000 annually.

### **Internal Solutions Are Available**

Out of the 74 cars assigned to the Department during SFY 2012, five permanently assigned vehicles were driven less than 12,600 miles. Management should consider reassigning these cars to higher mileage travelers.

Of the top eight travelers, the two travelers outside the Risk Management Division include the top overall traveler and the traveler with the third highest travel. These two travelers logged about 52,500 miles during the year and received around \$29,100 in reimbursement. Miles driven were reimbursed at the Internal Revenue Service (IRS) mileage reimbursement rate in effect at the time of travel. The IRS mileage reimbursement rate was 55.5 cents a mile for fiscal year 2012.

If these two travelers used state cars, the cost to the Department would have totaled \$15,700, a savings of \$13,400 (46%). The cost to the Department is less because, on average, it costs only 30 cents a mile to operate a state car.<sup>2</sup>

The Department recognizes that it would be cheaper if all high-traveling staff used state cars. The Controller reports that the Department is constantly looking at ways to minimize travel costs and have difficulty consistently doing so because many cars assigned to the Department have high mileage and are prone to breakdowns.

### ***Recommendation:***

The Department should continue to identify its top travelers and offer them state cars. If the Department does not have cars available, then it should reassign cars so that employees expected to drive the most are offered the option of driving a state car. Any employee that declines a state car should be reimbursed at the motor fleet rate.

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<sup>1</sup> 0.43 cents a mile for SFY2012.

<sup>2</sup> Section 5.1.26 of the State Budget Manual issued by the Office of State Budget and Management.

## **AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES**

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### ***Agency Response:***

The Department will continue to identify its top travelers and offer them state cars when available. However, our agency just inquired about permanently assigned vehicles and temporary assigned vehicles for use by our Manufactured Building Division inspectors in Henderson, Albemarle and Wayne County. We were informed by Motor Fleet Management that currently there are no state vehicles available and that they have a backlog of requests for vehicles and that it could possibly be a year before a vehicle will be available. As a result, the Department will look at reassigning cars so that employees expected to drive the most are offered the option of driving a state car. Also, any employee that declines a state car when one is available will be reimbursed at the motor fleet rate.

### **3. NONCOMPLIANCE WITH TRAVEL POLICIES**

The Department of Insurance (Department) is not in compliance with several Office of State Budget and Management (OSBM) and Department travel policies. A random sample of 45 travel invoices found 21 instances of noncompliance.

#### **Travel Regulations**

OSBM's Budget Manual contains a comprehensive list of regulations for per diem, transportation, subsistence, and other allowances that agency heads and staff are expected to follow when reimbursing employees for travel related expenses. The Department has agency-specific travel rules that are consistent with OSBM's objective of only paying for valid and reasonable travel expenditures. It is the responsibility of department heads and their staffs to acquaint themselves with travel regulations.

A review of 45 travel invoices found 21 instances of noncompliance with Budget Manual or Department travel regulations. Not every travel regulation will apply to a given travel instance. The applicable regulations depend on the specifics of each trip. Noncompliance was noted in a variety of areas including:

- Travel requiring prior written approval was not approved in 12 of the 41 (29%) invoices tested;
- Employee personal vehicle mileage was not considered reasonable in three of the 32 (9%) invoices tested;
- The purpose of travel was not explained in six of the 45 (13%) invoices tested.

When travel regulations are not followed, the Department could incur costs that are not reasonable or necessary.

## **AUDIT FINDINGS, RECOMMENDATIONS, AND RESPONSES**

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### ***Recommendation:***

The Department should ensure that all employees are aware of and have access to OSBM and Department travel regulations.

Supervisors who approve travel reimbursement requests should ensure that the travel is properly documented and that all amounts are reasonable and allowable.

Controller's Office staff should return non-supported and noncompliant travel reimbursement requests to the appropriate supervisor for correction.

### ***Agency Response:***

The Department's travel policies and procedures are posted to the Department's intranet and all employees have access to these policies and procedures. In addition, when policy updates occur, the Department's Controller's Office disseminates the information to all staff. Supervisors who approve travel will be reminded that they ensure that all travel requests are properly documented and that all amounts are reasonable and allowable.

The Department is also revising its travel authorization form and travel reimbursement form to include certain information that will be mandatory. The purpose of the trip will now be a mandatory field on the travel reimbursement form and must be filled in by the traveler before the form can be processed. In addition, the Department's Controller's Office will hold training sessions with staff in regard to preparing the new travel forms and updating them on travel regulations. Also, the Controller's Office staff will return all noncompliant and non-supported travel requests to the appropriate supervisor for correction.



August 14, 2013

The Honorable Beth A. Wood, State Auditor  
Office of the State Auditor  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Dear Ms. Wood:

In connection with your audit of the travel reimbursement process of the North Carolina Department of Insurance for the fiscal year of 2011-2012 we hereby submit our responses to the audit findings.

**1. EMPLOYEE TRAVEL IRREGULARITIES**

It was noted during your review of employees' travel reimbursement forms, that miles claimed by two employees appeared excessive and it was recommended that we seek reimbursement from the employees in question. It was also recommended that we review the employees' travel reimbursements for the fiscal years ending June 30, 2011 and June 30, 2013 to determine if miles were overstated. In addition, it was recommended that we require employees provide documentation with travel reimbursement requests that adequately supports the locations visited by the employee and the routes taken to arrive there. It was also recommended that supervisors should verify that miles claimed for reimbursement are reasonable based on the trip.

**AGENCY RESPONSE**

The Department will perform a review of the travel reimbursements for these employees for the fiscal years ending June 30, 2011 and June 30, 2013 to determine if miles were overstated in addition to the mileage discrepancies identified by the audit. Based on the results of the review, the Department will take appropriate action. In addition, the Department will request that travelers provide a description of all locations visited and provide an explanation for any unusual situations where the mileage is not reasonably consistent with typical internet based mapping software.

The Department will remind supervisors that their signature on the travel reimbursement form verifies that they compared the employee's work locations/destinations to the travel reimbursement and that they verified that the information on the form is accurate including any reimbursement claims for mileage. In addition, the Department will also require that the Controller's Office staff perform reviews of travel reimbursements to determine if the trip mileage being reported is accurate.

**2. ASSIGNING STATE CARS TO TOP TRAVELERS WOULD SAVE MONEY**

It was noted in your review that the Department would have saved about \$13,400 if state cars were assigned to top travelers during the fiscal year ending June 30, 2012. It was recommended that the Department identify its top travelers and offer them state cars. If state cars are not available it was recommended that the Department reassign cars so that employees expected to drive the most are offered the option of driving a state car.

**AGENCY RESPONSE**

The Department will continue to identify its top travelers and offer them state cars when available. However, our agency just inquired about permanently assigned vehicles and temporary assigned vehicles for use by our Manufactured Building Division inspectors in Henderson, Albemarle and Wayne County. We were informed by Motor Fleet Management that currently there are no state vehicles available and that they have a backlog of requests for vehicles and that it could possibly be a year before a vehicle will be available. As a result, the Department will look at reassigning cars so that employees expected to drive the most are offered the option of driving a state car. Also, any employee that declines a state car when one is available will be reimbursed at the motor fleet rate.

**3. NONCOMPLIANCE WITH TRAVEL POLICIES**

It was noted during your review that the Department was not in compliance with several Office of State Budget and Management (OSBM) and Department travel policies. It was recommended that the Department ensure that all employees are aware of and have access to OSBM and Department travel regulations. It was also recommended that supervisors who approve travel reimbursement requests should ensure that the travel is properly documented and that all amounts are reasonable and allowable.

**AGENCY RESPONSE**

The Department's travel policies and procedures are posted to the Department's intranet and all employees have access to these policies and procedures. In addition, when policy updates occur, the Department's Controller's Office disseminates the information to all staff. Supervisors who approve travel will be reminded that they ensure that all travel requests are properly documented and that all amounts are reasonable and allowable.

The Department is also revising its travel authorization form and travel reimbursement form to include information that will be mandatory. The purpose of the trip will now be a mandatory field on the travel reimbursement form and must be filled in by the traveler before the form can be processed. In addition, the Department's Controller's Office will hold training sessions with staff in regard to the preparing the new travel forms and updating them on travel regulations. Also, the Controller's Office staff will return all noncompliant and non-supported travel requests to the appropriate supervisor for correction.

We appreciate the professionalism exhibited by your staff during the audit and should you have any questions please contact Laresia Everett, Acting Controller, at 919-807-6036.

Sincerely,

  
Wayne Goodwin  
Commissioner



## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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This audit required 853 audit hours at a cost of \$58,411.