



STATE OF NORTH CAROLINA

SPECIAL REVIEW

NORTH CAROLINA DEPARTMENT OF CULTURAL RESOURCES

RALEIGH, NORTH CAROLINA

OCTOBER 2008

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
Lisbeth C. Evans, Secretary, Department of Cultural Resources
Members of the North Carolina General Assembly

Ladies and Gentlemen:

Pursuant to General Statute § 147-64.6(c)(16), we have completed our special review of the North Carolina Department of Cultural Resources. The results of our review, along with recommendations for corrective action, are contained in this report.

Copies of this report have been provided to the Governor, the Attorney General and other appropriate officials in accordance with North Carolina General Statute § 147-64.6 (c) (12) which requires the State Auditor to provide written notice of apparent instances of violations of penal statutes or apparent instances of malfeasance, misfeasance, or nonfeasance by an officer or employee.

Respectfully submitted,

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

October 30, 2008

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INTRODUCTION

Following media reports regarding the costs of overseas travel by the Governor and First Lady, the Office of the State Auditor received several complaints through the State Auditor's Hotline. Specifically, we received allegations that the expenses were wasteful and extravagant with no business purpose. The State Auditor decided to review the overseas trips to determine the appropriateness of the trips and expenses associated with the travel.

Our special review of these allegations included the following procedures:

- Interviews with management and staff of the North Carolina Department of Cultural Resources, North Carolina Office of the Governor, North Carolina Department of Crime Control and Public Safety, North Carolina Department of Commerce, and North Carolina Office of State Budget and Management.
- Examination of relevant documents and records including review of travel expense reimbursement requests, invoices, itineraries, e-mails, financial reports, and personnel information.
- Review of policies and procedures and State regulations including the North Carolina General Statutes, North Carolina Administrative Code, and North Carolina State Budget Manual.
- Interviews with individuals external to North Carolina state government.

This report presents the results of our special review. The review was conducted pursuant to North Carolina General Statute §147-64.6(c)(16) rather than as a financial statement audit or review. The Department of Cultural Resources is subject to financial audit procedures within the Office of the State Auditor's audit of the State's Comprehensive Annual Financial Report.

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ORGANIZATION OVERVIEW

North Carolina Department of Cultural Resources

The North Carolina Department of Cultural Resources (Cultural Resources) was formed in 1971 to provide historical and cultural experiences to the State's citizens to promote North Carolina's economic and social well-being. Cultural Resources "was the first state organization to include all agencies for arts and culture under one umbrella."¹

Cultural Resources consists of two primary offices: the Office of Archives and History and the Office of Arts and Libraries. The Office of Archives and History strives to preserve and maintain a record of North Carolina's cultural heritage and includes the Division of State History Museums, the Division of State Historic Sites, and the Division of Historical Resources. The Office of Arts and Libraries helps to provide arts, education, and cultural experiences to citizens and visitors. The Office of Arts and Libraries includes the North Carolina Museum of Art (Museum), the North Carolina Arts Council, the North Carolina Symphony, and the State Library of North Carolina.

Cultural Resources employs a staff of 851 and its annual State appropriations exceed \$75 million. The Secretary of Cultural Resources leads the organization and is appointed by the Governor.

North Carolina Museum of Art

The Museum of Art is located in Raleigh and houses the first state art collection purchased with public funds. The Museum of Art was founded in 1947 and its current collection spans 5,000 years from Egyptian to 20th century masterworks. The Museum hosts special exhibitions such as "Monet in Normandy" that ran from October 15, 2006 through January 14, 2007. An ongoing Museum of Art expansion project will add a 127,000 square foot building on the existing Museum grounds. In addition to State funds, the Museum of Art receives approximately \$8 million annually in donations from individuals and corporations through the North Carolina Museum of Art Foundation, Inc.

First Lady

The North Carolina First Lady's initiatives focused on preventing and reducing underage drinking, assisting military families, and promoting and supporting the arts. As such, the First Lady worked with numerous museums, organizations, and festivals with an emphasis on the North Carolina Museum of Art. She is the honorary chair of the Museum's campaign steering committee and assisted in bringing exhibits to the Museum. In addition, the First Lady attends events and conducts speaking engagements to further the arts.

¹Department of Cultural Resources website (<http://www.ncdcr.gov/ataglance.asp>)

ORGANIZATION OVERVIEW (CONCLUDED)

Department of Crime Control and Public Safety

The Department of Crime Control and Public Safety's mission is to reduce crime, enhance public safety, and assist victims throughout North Carolina. The State Highway Patrol falls under the leadership of the department and acts as the State's largest law enforcement agency. In addition to its responsibilities of promoting highway safety through education and enforcement, the State Highway Patrol includes a special unit that provides full-time security protection for the Governor, First Lady, and Lieutenant Governor.

BACKGROUND/TRIPS OVERVIEW

Paris Trip

The First Lady traveled to Paris and Compiègne, France between May 17, 2007 and May 24, 2007 in conjunction with a tour, *Following in the Footsteps of Monet*, sponsored by the North Carolina Museum of Art (Museum). All costs associated with the First Lady's involvement with the trip were paid for by the Department of Cultural Resources (Cultural Resources).

The trip was held as a follow-up to the "Monet in Normandy" exhibit held at the Museum between October 15, 2006 and January 14, 2007. According to Museum officials, similar trips are commonly planned and made available to Museum contributors as an added value for their support of the Museum's activities. Cost to participants who chose to attend was \$5,695 not including airfare to France.

The following is an excerpt from the trip's brochure:

Dear North Carolina Museum of Arts Traveler:

You are invited to experience "Following in the Footsteps of Monet," a program designed exclusively for the North Carolina Museum of Art. [Emphasis added] *This extraordinary journey explores the life and art of French Impressionist Claude Monet through three unique areas of France: artistically rich Paris, historically significant Compiègne, and naturally beautiful Normandy.*

Begin in Paris at the luxurious Sofitel Hotel Scribe, located in the heart of the city, between the famous Opera Garnier and the Place Vendome. Immerse yourself in Monet's greatest masterpieces in the newly reopened Orangerie Museum and the small but exquisite Marmottan Museum, featuring the influential Impression-Sunrise masterpiece. Gain special entrée into the American Ambassador's Parisian residence for a private tour and reception. [Emphasis added]

Travel to Compiègne, the sister city of Raleigh, where you will be welcomed as royalty and treated to a Black Tie Gala evening with a private concert and gourmet dinner in the Compiègne Château, a royal residence built by Louis XV. Also attend a private visit and special ceremony at the Armistice Glade in our honor, which marks the spot where the Armistice of World War I was signed on November 11, 1918. [Emphasis added]

Cultural Resources officials provided documentation and an explanation regarding the First Lady's involvement with the trip. This documentation was consistent with recent media reports that implied that the First Lady's inclusion on the trip was an integral part

BACKGROUND/TRIPS OVERVIEW (CONTINUED)

of the tour and that her presence was needed to assist in recruiting additional exhibits for the future benefit of the State. The Chief Deputy Secretary stated that her knowledge of the purpose and origin of the trip was based primarily on an e-mail submitted to her by the Museum Director (Director) on June 30, 2008 with the subject "statement you requested" as follows:

"[The First Lady] was invited by the City of Compiègne, the sister city of Raleigh, to participate in a celebration of the renovated Château de Compiègne. The dinner was attended by the American Ambassador, the Minister of Culture for France, the Director of the Louvre, and many dignitaries. It was akin to a state dinner. [The First Lady] was a guest of honor. [The First Lady] likewise attended a wreath-laying ceremony at the World War I historic site at Compiègne where the truce was signed on November 11, 1917. [Emphasis added] In Paris, she met with cultural leaders at the Louvre and related museums. She accompanied the North Carolina Museum of Art tour of Paris and Normandy for four days. The trip was organized to celebrate the successful "Monet and Normandy" exhibition which drew nearly 220,000 visitors and had an economic impact on the region of nearly \$20 million."

We interviewed the First Lady's former Executive Assistant (Executive Assistant) who also went on the trip and who coordinated the planning of the trip in her previous role as a trip organizer for the Museum. She said that she organized about four to five trips a year. The Executive Assistant said that, traditionally after a big exhibit, the Museum conducts a follow-up trip. Some trips are planned up to two years in advance. She said that the trip was promoted when the Monet exhibit was on display at the Museum.

The Executive Assistant said that original plans included 20 to 30 travelers and that the group planned to visit Paris and Normandy only. However, while planning the trip, the Museum was contacted by a group based in Durham, North Carolina, the American Friends of the Château de Compiègne (AFCDC) which was formed in October 2006. According to the Director, the group had been advocating to have members from the Museum visit the Château. The Friends of Compiègne in France were planning a Château restoration fund-raising event occurring while the North Carolina group would be there. The Director said that the tour company that was arranging their tour incorporated the Compiègne portion into their tour.

The Executive Assistant said that the First Lady's involvement was not part of the original trip plans. When the Compiègne portion was added, the AFCDC indicated that the Museum could invite whomever they wanted to be included on the tour. The Executive Assistant said that "The First Lady is very involved in the arts and so she was invited." The Executive Assistant said that the First Lady could only take part in the Paris and Compiègne portion of the tour as she needed to return early to attend a

BACKGROUND/TRIPS OVERVIEW (CONTINUED)

wedding. The Executive Assistant admitted that the First Lady had no scheduled duties while on the tour.

The Director said that he was unsure if the First Lady had received a separate invitation but, instead, he believed that there was a written invitation to the tour group. Cultural Resources officials were unable to provide the invitation from the AFCDC. The Director said he did not know exactly when the First Lady agreed to go on the trip but thought it was perhaps two months prior to the trip. He said that, after the First Lady agreed to go on the trip, the AFCDC made their event even bigger and invited more prominent officials. However, our review of the AFCDC website revealed no mention of the First Lady in their summary of the North Carolina group's visit to the Château.

The Director said that he arranged a small informal tour for the First Lady separate from the tour group on the two days before the formal tour began. According to the Director, when the tour began, the First Lady joined the tour group on the tour bus and was an active participant in all of the tour activities. He stated that he and the First Lady did not visit any museum directors or private homes separate from the tour group. The Director said that this trip was not a trip he took to conduct business for the museum but was a "member trip only." He said that "having the First Lady accompany them on the trip was a great enhancement to the trip for the members as well as to the Friends of the Château de Compiègne."

The Executive Assistant stated that she went on the tour because she was invited by the Deputy Mayor of Compiègne who was assisting with tour arrangements and because she was expected to assist the First Lady while on the trip. The Executive Assistant said that she knew of no similar trips that the First Lady had taken. However, she said that the First Lady had made trips to visit museums and private collections around North Carolina and in the United States.

Estonia/Russia Trip

Cultural Resources sponsored a cultural exchange trip to Tallinn, Estonia and St. Petersburg, Russia from May 11, 2008 through May 17, 2008. The North Carolina delegation included the First Lady, Secretary of Cultural Resources (Secretary), Director, Cultural Resources Administrative Officer, a State Highway Patrol Trooper (Trooper), and a Southeastern Center for Contemporary Art board member. Costs for the Estonia portion of the trip were covered by the U.S. Embassy except for some expenses incurred by the Trooper and board member while expenses in St. Petersburg were paid by Cultural Resources with the same exceptions.

The trip derived from a request from the wife of the U.S. Ambassador to Estonia (Ambassador) who asked the Secretary for assistance for the Estonian museums and local artists. The Ambassador's wife is a patron of the arts and the North Carolina Museum of Art previously loaned art works for display at the Ambassador's residence in Estonia.

BACKGROUND/TRIPS OVERVIEW (CONTINUED)

The Ambassador and his wife are native North Carolinians and the Ambassador formerly served as the North Carolina Secretary of Commerce. In addition, the Ambassador's wife maintains a friendship with the Secretary.

The Secretary committed to the trip in March 2008. Since another Museum employee could not attend with the Secretary, the Director agreed to go. During the trip planning, the Secretary asked the Ambassador's wife if the First Lady could accompany them. The Ambassador's wife was delighted the First Lady would join them and started planning a press conference and a reception in the First Lady's honor. The delegation was invited to stay at the Ambassador's residence during their stay in Estonia. However, due to space limitations, the Trooper and the board member stayed at a local hotel in Tallinn, Estonia.

When the Director learned that the First Lady would be attending, he decided to include a visit to the State Hermitage Museum in St. Petersburg, Russia, since it was nearby. The Director believed that the First Lady's presence increased the likelihood of arranging a meeting with Hermitage officials. The Director informed the Ambassador's wife of their desire to visit St. Petersburg and the Ambassador contacted the Russian Ambassador in Estonia to arrange a meeting and tour of the Hermitage Museum and to request an invitation that would assist in obtaining Visas. Cultural Resources paid for the Visas for the Secretary, Director, and Administrative Officer; the Department of Crime Control and Public Safety (Crime Control) paid for the Trooper's Visa; and the board member paid for his Visa.

The Ambassador's wife and the Director worked with the Estonian museum officials on arrangements for the North Carolina delegation's visit. The Director's assistant used a travel agency to book the business class flights and a tour agency to arrange a tour in St. Petersburg. Transportation arrangements were made through the hotel and the tour agency.

The delegation flew from Raleigh-Durham to St. Petersburg, arriving on May 11. The delegation went on a tour of St. Petersburg the next day. On May 13, the St. Petersburg tour concluded and the delegation met with officials at the Hermitage Museum. Later that night, the delegation attended the Mariinsky Ballet. The Director informed us that the meeting with Hermitage officials was the only official State business conducted in St. Petersburg.

On May 14, the North Carolina delegation flew to Tallinn, Estonia. The Embassy's driver met the delegation at the airport and transported them to the Ambassador's residence. The delegation participated in a dinner party hosted by the Ambassador with the following guests: the Turkish Ambassador, the Russian Ambassador, journalists, and the Department Head of the Estonia Museum.

On May 15, the North Carolina delegation spent the day touring Tallinn. The Embassy provided the delegation transportation to visit sights including Old Town, Alexander

BACKGROUND/TRIPS OVERVIEW (CONCLUDED)

Nevsky Cathedral, Dominican Monastery, Lower Merchant Square, Tommpea Castle, and the Bronze Soldier of Tallinn. That night, the First Lady accompanied the Ambassador and his wife to a ceremony honoring the Queen of Netherlands. Afterward, the First Lady met the rest of the delegation at a performance by the Estonian National Symphony.

On May 16, the North Carolina delegation toured the Estonia museums. They met with officials from the Art Museum of Estonia (KUMU). The Secretary invited the board member to make a presentation at the KUMU regarding the North Carolina Executive Mansion Collection. The Director and the KUMU Director originally planned for an all day seminar and discussion at the KUMU. However, the agenda changed due to time constraints and the delegation spent more time touring the KUMU. The presentation was a roundtable discussion lasting approximately one hour. The Secretary presented a visual overview of government policy and cultural administration and the Director gave a presentation on the Museum, its collections, current expansion project, and challenges. The KUMU Director had planned on meeting with the delegation. However, a few days prior to their departure, the North Carolina delegation was informed via e-mail that she would not be attending due to another commitment.

That afternoon, the Embassy held a press conference with 75 to 100 attendees. Two television stations covered the interviews with the First Lady and local artists. Research was conducted to locate any media coverage of this press conference; however, we were unable to locate any items. Instead, our research found local newspapers reporting only the costs of this trip as reported by North Carolina media. The North Carolina delegation returned to Raleigh-Durham on May 17.

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FINDINGS AND RECOMMENDATIONS

1. CULTURAL RESOURCES DOES NOT HAVE A FORMAL PROCESS FOR BUDGETING AND PLANNING OVERSEAS TRAVEL OR TO DETERMINE WHETHER OBJECTIVES WERE ACCOMPLISHED IN AN EFFICIENT MANNER.

The Chief Deputy Secretary of Cultural Resources (Chief Deputy) informed us that the Secretary of Cultural Resources (Secretary) and Director of the North Carolina Museum of Art (Director) have blanket travel authorizations. Aside from those documents, there were no prior written authorizations, formal stated objectives, or specific expected outcomes for the trips. Further, Cultural Resources management did not establish a budget for the trip expenses and did not ensure that there was funding available in the travel budget to cover the trip costs.

The Chief Deputy told us that the Cultural Resources travel budget was insufficient to cover the total costs. As a result, Cultural Resources sought and received approval to transfer lapsed salary funds to the budget line-item for travel. For the France trip, \$32,231 was transferred from lapsed salary funds for the Office of the Secretary to the Museum of Art travel line-item to pay for the private transportation service and airfare expenses. For the Estonia/Russia trip, \$27,511 was transferred from lapsed salary funds from State Library Services to the Administrative Services travel line-item to pay for the delegation's airline tickets.

The Chief Deputy said that management does not require formal justifications or budgets for overseas travel requests. Instead, Cultural Resources management trusts their employees will make good decisions and have valid reasons for travel. Also, the Chief Deputy said that there is no formal follow-up required to evaluate whether the trip met any stated objectives or to consider any changes when planning future trips. Cultural Resources management noted that the Director provides a verbal summary of any travel activities at the next monthly management meeting.

It is understandable that the types of trips that Cultural Resources sponsors, including the trips to France and Estonia/Russia, may not produce tangible benefits for several years. However, because there is no formal planning or follow-up, it is difficult to correlate future accomplishments with a particular trip.

All State agencies should be held accountable for how they spend tax dollars. As such, clear, stated objectives should be determined before undertaking a State-funded trip. In addition, consideration should be given to how much the trip will cost in relation to any expected benefit it may produce. Further, the cost of the trip should be evaluated prior to the trip and decisions about how it will be funded considered before, rather than after, completion.

From our discussions with Cultural Resources officials, it appears the justification for these trips was the hope of acquiring future exhibits. According to the Director, the

FINDINGS AND RECOMMENDATIONS (CONTINUED)

France trip was simply a tour celebrating the successful Monet exhibit with no specific potential exhibits identified or pursued. In addition, our review determined that the First Lady did not have any specific duties or obligations while on the trip. Any “direct benefit” to the State related to the First Lady’s presence on this trip is difficult to identify.

The Director said that the curators usually work to acquire an exhibit and he only gets involved to aid the process or “close the deal.” For the St. Petersburg, Russia trip, upon learning that the First Lady would be involved with the trip to Estonia, the Director made the decision to meet with Hermitage Museum officials to discuss potential art exchanges and “added” the St. Petersburg portion of the trip.

During their visit to St. Petersburg, the North Carolina delegation met with the Hermitage Deputy Director for approximately one hour with each group sharing information about their respective museums. No documentation was kept about the meeting by either museum; however, the Director sent a follow-up “thank you” letter to the Hermitage Museum. The Director said that curators may work on acquiring a Rembrandt exhibit from the Hermitage for exhibition after Museum of Art expansion although no formal plans existed at the time. The Director said that there was no plan or project related to the Hermitage prior to the trip. Instead, the visit was primarily a cold call to “open doors.”

RECOMMENDATION

We recommend Cultural Resources establish a policy that requires the submission of clearly stated objectives, reasonable budgets, and identified funding sources prior to any trip to evaluate the cost in relation to the expected benefit of the trip. After each trip, the Cultural Resources official responsible for overseeing the trip should prepare a formal summary of trip costs, accomplishments, and next steps to assist in evaluating the trip effectiveness.

2. AMOUNTS REIMBURSED FOR EXPENSES INCURRED IN ST. PETERSBURG WERE NOT REASONABLE.

We reviewed all expense reimbursement requests and supporting documentation regarding the travel to Tallinn, Estonia and St. Petersburg, Russia in May 2008. Our review revealed that Cultural Resources reimbursed expenses at their actual costs rather than requiring employees adhere to spending limits as specified by the State Budget Manual or any other guidelines.

The Director informed us that the North Carolina Museum of Art Foundation, Inc. (Foundation) normally funds his travel on behalf of the Museum. As a result, he was not familiar with the State’s travel policies. The Secretary told the Director that

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Cultural Resources would finance this trip. (The State paid all expenses in St. Petersburg for the First Lady, the Secretary, the Director, the Administrative Officer, and the Trooper.) He believed that the State’s travel policies and allowable rates did not apply to these travel expenses since this trip was sponsored by Cultural Resources and the First Lady was also attending. Therefore, the Director focused on ensuring the trip’s quality for the First Lady rather than concerning himself with the costs involved. Previously, he told a newspaper reporter, “...We wanted to try one of the good restaurants and wanted to show [the First Lady] a good Russian experience.” The Director confirmed this focus and said that the First Lady’s inclusion increased the cost to a “higher level.” Further, the Director told us he would have adhered to the Foundation’s travel policies (which are more stringent and detailed) had he traveled alone. For example, he normally flies coach class but the Director flew business class with everyone else so he would not have to sit alone.

Lodging in St. Petersburg

According to the Administrative Officer, she assisted in planning the trip and asked the Ambassador’s wife for hotel suggestions. The Ambassador’s wife suggested the Europe Grand Hotel, the most expensive hotel in St. Petersburg. However, since a sufficient number of rooms was not available, the delegation stayed at the Rocco Forte’s Hotel Astoria, a five-star hotel that was the next most expensive. No other suggestions were sought or research conducted regarding hotel accommodations.

Table 1 shows that the Astoria hotel rooms averaged \$955.40 per night per room (total cost to the State for four rooms for three nights was \$11,464.74). Cultural Resources paid for three rooms: the First Lady and the Administrative Officer’s shared room, the Secretary’s room, and the Director’s room. Crime Control paid for the Trooper’s room and the SECCA Board member paid for his room. Our independent research of hotels in St. Petersburg revealed many four-star hotels with rates ranging from \$171 to \$258 per night per room and another five-star hotel with a \$428 rate per night per room for the same calendar month this trip was taken.

Date	Total Amount	Rooms
May 11	\$3,611.42	4
May 12	3,611.42	4
May 13	4,241.90	4
Total	\$11,464.74	12
Average per Room	\$955.40	
Source: Expense reimbursement requests		

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Section 5.1.7, “Excess Lodging” in the State Budget Manual states:

“Excess lodging authorization for in-state, out-of-state, and out-of-country travel must be obtained in advance from the department head or his or her designee. Excess lodging is allowed when the employee is in a high cost area and unable to secure lodging within the current allowance, or when the employee submits in writing an opinion that his/her personal safety or security is unattainable within the current allowance. Excess lodging authorization is not allowed for reason of convenience or personal preference for the employee.”

The travel expense reports did not include any documentation noting high cost areas, security concerns, or other information regarding costs of other lodging in this area. It appears the group found accommodations without considering the costs ultimately paid by the State or with the care required by Section 5.0.2, “Employee Responsibility” of the State Budget Manual which notes 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.”

Meals in St. Petersburg

Our review revealed that the North Carolina delegation ate several meals in St. Petersburg with no other attendees. These meals did not involve any officials from other governments or museums or local artists. Listed below are a few examples:

- On May 11, the delegation ate dinner alone at the Caravan. The Secretary paid for everyone’s meal except for the board member who paid for his meal. The total meal cost was \$520.84 for five people (\$104.17 per person). The Secretary was reimbursed the total amount. When we analyzed the meal receipt, we discovered that the Secretary was reimbursed for \$223.85 of alcohol. In addition, the Secretary was reimbursed \$94.06 for additional food and beverages charged to her room.
- On May 12, the Director charged \$175.20 to his hotel room for beverages and food for the delegation. The Director believed that these charges were for drinks and caviar. These charges were reimbursed by Cultural Resources as dinner expense even though the Secretary was reimbursed for dinner for the entire group’s meal earlier that evening.
- On May 13, the group ate lunch alone at the Mezzanine Café at a total cost of \$531.31 for six people (\$88.55 per person). The meal included a caviar cocktail costing \$332.12. The Director paid for this meal and was reimbursed by Cultural Resources for the total amount.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

- On May 13, the delegation had dinner alone at the 1913 Restaurant. The total for this meal was \$574.60 for five people (\$114.92 per person). When we translated the receipt by line-item, we discovered alcohol costing \$225.89 on the receipt. The Secretary paid for this meal and was reimbursed by Cultural Resources for the entire amount including the alcohol.

Table 2 shows the amounts reimbursed by Cultural Resources for meals and drinks during the St. Petersburg portion of the trip. Based on our analysis, meal costs averaged \$40.17 per person for breakfast, \$76.20 per person for lunch, and \$101.18 per person for dinner. In addition, the Secretary and Director were reimbursed for late night snacks and beverages averaging \$36.26 per person.

TABLE 2								
ST. PETERSBURG MEAL EXPENSES REIMBURSED BY STATE								
Day	Breakfast	Persons	Lunch	Persons	Dinner	Persons	Other Drinks/ Food	Persons
May 11					#\$520.84	5	\$94.06	1
May 12	\$192.16	4	\$383.12	6	624.54	6	\$175.20	6
May 13	145.10	4	*531.31	6	#574.60	6	20.85	1
May 14	144.83	4						
Total	\$482.09	12	\$914.43	12	\$1,719.98	17	\$290.11	8
Average/Person	\$40.17		\$76.20		\$101.18		\$36.26	
* Amount includes \$332.12 for caviar cocktail								
# Amount includes alcohol.								
Source: Expense reimbursement requests and supporting documentation								

The State Budget Manual does not specify meal allowances for out-of-country travel; instead, Section 5.1.17, “Excess Meals” states:

“No excess reimbursement will be allowed for meals unless there are predetermined charges, or the meals were for out-of-country travel. The department head or his or her designee may grant excess subsistence for meals for out-of-the country travel.”

Travel regulations provide that meals during out-of-state travel be reimbursed as a per diem equal to \$7.50 for breakfast, \$9.75 for lunch, and \$19.00 for dinner. We recognize that out-of-country travel necessitates higher meal expenses and that the State Budget Manual provides an exception. However, we question whether the full cost should be reimbursed by the State for meals at which no official business was conducted and when the amounts reimbursed are seven times the out-of-state per diem.

The Chief Deputy reviewed and approved the expense reimbursement reports for this trip. When we informed her that these reimbursements included alcohol, she said “it was a mistake.” Previously, the Chief Deputy assured us that all expenses complied

FINDINGS AND RECOMMENDATIONS (CONTINUED)

with budget regulations and that no alcohol was purchased with State funds. Since these receipts were printed in Russian, it appears this was an oversight since Cultural Resources did not translate these receipts to identify unallowable charges.

Cultural Resources management told us that their employees follow the rules and are entrusted to make good judgment calls. The Chief Deputy approved all expenses (except for removing alcohol charges on one receipt) because she believed the costs were reasonable. Management believed no policies or statutes had been violated relating to any of the travel expenditures paid by Cultural Resources. The Chief Deputy did not think that any of the bills were excessive in comparison to any prior trips sponsored by Cultural Resources.

While the State Budget Manual gives little guidance to State agencies regarding allowable and appropriate amounts for meals and lodging during out-of country travel, we discovered the U.S. Department of State, Office of Allowances website² that provides per diem limits for federal employees while traveling overseas. Our review of those allowances revealed that the U.S. Department of State provides reimbursement of \$111 in meals and incidentals and \$315 per night's lodging for travel in St. Petersburg, Russia.

Also, the Chief Deputy said that the sponsoring agency pays for the First Lady's expenses. She said that the First Lady is not a "state employee" and, therefore, not subject to the per diem travel limits. However, four state employees traveled with the First Lady, and Section 5.7.1, "Non-state Employees" of the State Budget Manual states that "...*non-state employees are those on official state business whose expenses are paid by the state and subject to state regulations....Non-state employees traveling on official state business whose expenses are paid by the state are subject to these regulations, including statutory subsistence allowances, to the same extent as are state employees.*"

Trooper's Meal Reimbursements

The Troopers working on the Executive Security Detail told us that they are paid meal reimbursement in accordance with State per diem guidelines. If they attend a function while providing security for the Governor, First Lady, or Lieutenant Governor, the Trooper's meal is usually paid for by a member of the party; therefore, the Trooper would not submit a reimbursement request for that meal. However, if the meal is not paid by the agency sponsoring the trip, the Trooper submits receipts for the actual meal cost resulting from their required attendance at the event.

The Troopers indicated that, on many occasions, they have suffered out-of-pocket costs for "off duty" meals. For example, if the Troopers eat on their own (not at an official function), Crime Control only reimburses the Troopers at the per diem rate

² http://aoprals.state.gov/web920/per_diem.asp

FINDINGS AND RECOMMENDATIONS (CONTINUED)

even if the meals were at high-cost restaurants or locations. As a result, a potential “double standard” exists in which the Trooper is reimbursed for a meal at the per diem rate while officials from other agencies in the same location are reimbursed at actual costs by their respective agencies.

We learned that the Trooper submitted an expense reimbursement request to Crime Control for his meals (using the per diem subsistence rates) and lodging in St. Petersburg. We discovered that some of his meals were paid at full cost by the Secretary or Director who were then reimbursed by Cultural Resources. The Trooper said that he was told by the Secretary to claim the meals at the per diem rate on his travel reimbursement request and then write a personal check to Cultural Resources to offset the costs. As a result, the Trooper wrote a personal check to Cultural Resources for \$76.50 as reimbursement for five meals at which the Secretary or Director paid for his total meal cost. We confirmed this arrangement was made between the Secretary and Trooper for his convenience.

This situation revealed a potential internal control weakness. When the State Highway Patrol provides security on a trip sponsored by another agency, a possibility exists that some expenses could be reimbursed by both the sponsoring agency and Crime Control. Since the sponsoring agency does not review the Trooper’s reimbursement request and Crime Control does not review expense payments made by the sponsoring agency, neither agency can ensure that duplicate payments of travel expenses were not made. We believe the sponsoring agency should review and approve all expenses for the trip. If Crime Control maintains responsibility for the Trooper’s expenses, the sponsoring agency should then submit a bill to Crime Control for the associated costs.

RECOMMENDATION

Cultural Resources management should be diligent in its review and approval of expense reimbursement requests. Further, Cultural Resources should ensure that proper documentation is maintained to support the reasonableness of all costs including analysis of costs of comparable accommodations and meals and exchange rates.

In addition, we recommend that the Office of State Budget and Management develop specific guidelines for reimbursement of subsistence for meals and lodging for out-of-country travel. State Budget officials should consider establishing a ceiling above which the State will not reimburse costs or consider adopting guidelines such as the U.S. Department of State, Office of Allowances for foreign per diem rates.

Finally, the Governor’s Office, Crime Control, and all agencies sponsoring travel that includes the Security Detail should consider developing procedures whereby the sponsoring agency reviews and approves all costs and then submits an invoice to Crime Control for the costs associated with the Trooper’s expenses.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

3. CULTURAL RESOURCES PAID THE FULL COST OF MEALS AND ENTERTAINMENT WHEN NO OFFICIAL STATE BUSINESS WAS CONDUCTED.

Our review of the France trip revealed that the tour was organized for Museum contributors as an extension of and follow-up to the “Monet in Normandy” exhibit. Initially, the First Lady’s involvement was not considered but her participation was added at a later date. We discovered that the First Lady’s activities in France did not differ from those of the other tour participants. In addition, the Executive Assistant admitted that the First Lady did not have scheduled duties on the France trip and the Director said the First Lady did not meet with any museum officials or private donors separate from the tour group. However, the State paid all expenses for the First Lady, the Executive Assistant, and the Trooper. Since this trip was organized for the benefit of Museum donors, we believe consideration should be given to the North Carolina Museum of Art Foundation, Inc. (Foundation) using its private, donated revenues to pay the expenses of the First Lady, Executive Assistant, and Trooper.

Cultural Resources management told us that the trip to Tallinn, Estonia was a “cultural exchange” resulting from an invitation from the Ambassador’s wife who requested assistance for Estonian museums and artists. Therefore, the U.S. Embassy paid for the Estonia trip. The Secretary invited the First Lady to travel with her, the Director, and other representatives. After learning that the First Lady would attend, the Director added a trip to the State Hermitage Museum in St. Petersburg, Russia. The visit to the Hermitage included both a formal meeting with museum officials and a private tour of the museum. No documentation or explanation of other activities were given or required for the other days of the St. Petersburg visit. According to the Director, the only official State business in St. Petersburg occurred when they met with the Hermitage Deputy Director.

The North Carolina delegation flew into St. Petersburg on May 11, 2008. That night, the group ate dinner at the Caravan and did not meet with anyone from Russia. The Secretary paid for everyone’s meal except for the board member who paid for his own.

On May 12, a contracted tour agency provided a tour of St. Petersburg. The tour agency’s itinerary was titled “A Personal Program for [the First Lady] & [Director], A Private, Historical and Cultural Tour of St. Petersburg and your personal English-speaking guide.” The tour cost \$450 per person for the six member group. The Director paid the \$2,700 total cost and was reimbursed by Cultural Resources. According to the Director, the group spent the day “seeing the sights” and “learning about Russia.” The tour visited Pavlosk Palace, ate lunch, toured Catherine Palace, visited several other cultural sites, and returned to the hotel. That night, the delegation ate an “exquisite” dinner at the Palkin. The North Carolina delegation did not conduct any official business or meet with any Russian or museum officials

FINDINGS AND RECOMMENDATIONS (CONTINUED)

during the tour or meals. The Director, the Trooper, and the Administrative Officer confirmed that no official State business occurred that day.

On May 13, the tour continued with a visit to the Church of Our Savior on Spilled Blood before going to the Hermitage Museum for the official meeting and tour of the museum. That night, the North Carolina delegation attended the Mariinsky Ballet and Opera at the Kirov Theatre. The Secretary purchased tickets costing \$194.93 per person and was reimbursed the full amount of \$1,169.56. The delegation did not meet anyone for any official State business at the Theatre or for dinner afterwards. In addition, the group incurred transportation costs of \$63.70 to attend the ballet. We asked the Chief Deputy why the ballet tickets were reimbursed when no official State business had taken place. She responded that Cultural Resources is in the “entertainment and arts business” and, therefore, she believed the expenditures were justified.

Based on our review, we determined that no documentation was required to justify the purpose for any activities during the out-of-country travel. Aside from the one-hour meeting with the Hermitage Deputy Director on May 13, 2008, we did not identify an official State purpose during their travel to France or St. Petersburg. Cultural Resources officials believe all activities on these trips are business-related since the overall purpose of the trip was related to cultural arts and the activities included were of a cultural, educational, or historical nature.

Section 5.0.3 of the State Budget Manual states:

“Official state business occurs when the state employee or other person is traveling to attend approved job related training and/or work on behalf of, officially represent, or provide a state service upon the state’s request. Travel that would not directly benefit the state will not be reimbursable.”

We believe a differentiation should be made between “business meals and entertainment” and “personal meals while on travel status.” For comparison purposes, we reviewed the travel and entertainment policy for the Foundation, the non-profit organization that partners with Cultural Resources in achieving the same goals for the art museum. Their policy specifies the difference between “business” and “personal” meals and entertainment as follows:

“Business Meals and Entertainment

Justifiable expenditures for business meals and entertainment are reimbursable based on IRS guidelines. Entertainment involving only museum employees is disallowed unless necessitated by circumstances out of your control and the time is spent conducting business. The museum reserves the right to deny full reimbursement for lavish, excessive meal expenses.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Entertainment must be conducted within the following guidelines in order to be reimbursable:

- *As an integral part of formal business meetings, seminars, etc., when the expenses are reasonable and necessary to the conduct of the business.*
- *When entertaining people outside our museum who have an influence on our business if the expense is incurred in an environment conducive to a business discussion.*
- *When the entertainment directly precedes or follows a substantial and bona fide business discussion.*
- *Documentation for meals and entertainment must include: name of establishment, type of entertainment, names and business relationship of persons entertained, and subject of the business discussion.”*

“Personal Meals While on Travel Status

It is expected that employees would dine at moderately priced establishments and not at upscale establishments. For international travel, meals will be reimbursed at a rate reasonable and customary for the country of travel. Meal expenses within countries should compare favorably among travelers. The museum reserves the right to deny full reimbursement for lavish, excessive meal expenses.”

We believe many of the activities in France and St. Petersburg were entertainment for the North Carolina delegation’s personal benefit with a limited benefit to the State of North Carolina. In our opinion, the expenses incurred for the tours, some meals, and the ballet should not have been reimbursed under State policy.

RECOMMENDATION

Cultural Resources management should ensure that State resources are used only to pay for travel-related expenses that demonstrate a direct benefit to the State. To enable those determinations, we recommend that Cultural Resources develop procedures for sponsored travel that include prior authorizations, stated purposes and goals, identified contacts, summaries of activities and accomplishments, and a formalized follow-up process. In addition, when the purpose of the trip directly relates to the Museum’s Foundation, Cultural Resources should consider having the Foundation provide funding for the expenses.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

4. THE FIRST LADY’S FORMER EXECUTIVE ASSISTANT³ WAS IMPROPERLY REIMBURSED FOR PERSONAL PURCHASES.

During our review, we discovered that the First Lady’s former Executive Assistant (Executive Assistant) was reimbursed \$227.50 for the purchase of a linen jacket. According to her submitted expense report, the expense in question was classified as a dinner expense with an explanation of “Meal for 4.” However, documentation submitted with the expense report included an invoice for this amount from Unjour Ailleurs⁴. Further examination revealed that this receipt represented a purchase from a woman’s clothing boutique located in Compiègne, France.

We asked the Executive Assistant to acknowledge that the expense report was hers and that she had completed it. She said that the form accurately presented her expenses as represented by her signature on the form.

When we questioned the Executive Assistant about the boutique receipt, she indicated originally that the expense may have been for a “nice lunch.” We asked her if they had done any shopping while on the trip and the Executive Assistant answered “no.” However, when shown a photograph of the boutique obtained from the store’s website, the Executive Assistant admitted shopping there and purchasing a linen jacket.

The Executive Assistant confirmed the matching amounts from the receipt and the reimbursement form and said that she did not know why the receipt would have been included on her expense form. The Executive Assistant said that “I never would have expected the State to pay for that. I don’t remember writing this; it doesn’t look like my writing.” When we asked her who would have filled out her form, she said, “No one fills out my report.”

We asked the Executive Assistant who else would have completed her expense report. She repeated that she did not know. We asked the Executive Assistant to look for additional documentation or provide a name of who would have completed the form and she has provided no further explanation.

In addition, the Executive Assistant was reimbursed \$103.67 for dinner with an explanation on her expense reimbursement report of “3 rooms.” Review of the accompanying receipt revealed that the charge was from the hotel bar. Upon further questioning, the Executive Assistant admitted that the receipt represented purchases of alcoholic drinks from the hotel bar.

³ The First Lady’s former Executive Assistant transferred to an Administrative Officer I position with Cultural Resources on July 1, 2007.

⁴ www.unjourailleurs.com “Un Jour Ailleurs – is dynamic, easy to wear fashion that provides a look that is easy to put together throughout your life.”

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The expense reimbursement form includes the following statement: *“Under penalties of perjury, I certify this to be a true and accurate statement of the city of lodging, expenses and allowances incurred in the service of the state.”* The form submitted by the Executive Assistant included her signature below that statement attesting to her understanding of the requirements for obtaining reimbursement for expenses incurred while on State business.

Based upon our review, the First Lady’s former Executive Assistant knowingly submitted requests for reimbursement of unauthorized expenses incurred on the France trip and was inappropriately paid \$331.17 for expenses related to personal purchases.

RECOMMENDATION

We recommend that Cultural Resources seek repayment from the First Lady’s former Executive Assistant for \$331.17 related to the personal purchase of a linen jacket and alcoholic beverages. In addition, management should consider disciplinary action related to the submission of a false reimbursement request.

5. POOR PLANNING CAUSED A MISSED FLIGHT RESULTING IN ADDITIONAL COSTS FOR THE FRANCE TRIP.

According to documents we reviewed, costs associated with the trip to France included an overnight stay in New York City for the First Lady, her Executive Assistant, and a State Highway Patrol Trooper providing security. According to media reports and our initial meetings with Cultural Resources officials, the New York overnight stay occurred because the connecting flight to Paris was “cancelled.” However, based on historical flight information, we determined that American Airlines Flight 120 that the First Lady’s group was scheduled to take to Paris was not cancelled but left the gate only 12 minutes late at 9:47 PM.

The Executive Assistant and the Trooper both indicated that their flight was delayed taking off from Raleigh due to bad weather or crowded airspace and that they arrived late to New York. The Trooper stated that “I remember spending a lot of time on the runway before we even took off and then we had to circle JFK for a while and then had to spend more time on the runway when we landed.”

We determined that the First Lady’s traveling group utilized the State-owned aircraft maintained and operated by the North Carolina Department of Commerce (Commerce) to travel from Raleigh to New York’s JFK airport. According to a flight itinerary attached to the invoice provided to Cultural Resources for payment, the flight was scheduled to leave Raleigh at 6:55 PM and arrive at the General Aviation terminal at JFK at 8:20 PM. We reviewed the flight log associated with the flight and

FINDINGS AND RECOMMENDATIONS (CONTINUED)

discovered that the flight actually left the terminal in Raleigh at 6:55 PM and arrived at the General Aviation terminal in New York at 9:05 PM, a total flight time of two hours and 10 minutes.

We interviewed the Commerce Pilot who informed us that the times included on the flight logs indicate “chock to chock” time (the time that the aircraft actually pulls away and/or arrives at the terminal). The Pilot said that these times must be accurate in accordance with Federal regulations. The Pilot said that the trip should normally take about an hour and a half. We compared the travel time that was recorded on the flight taken the next week to the same airport to meet the group upon their return and the travel time was one hour and 35 minutes.

The Pilot stated that they took off from Raleigh after a normal five or 10 minute taxi on the runway and landed at JFK close to schedule. The Pilot said that delays occurred on the runway at JFK due to heavy ground traffic that did not allow their aircraft to taxi to the General Aviation terminal. The Pilot stated that evening traffic at JFK airport can often be heavy and, depending upon which runway they are directed to, can cause delays. The Pilot said that they were able to land on a runway near the terminal but had to cross over an adjacent taxi lane causing delays. The Pilot indicated that the entire delay was approximately 20 to 30 minutes.

The Executive Assistant said that she contracted with a travel agency to book the group’s roundtrip flight from New York to Paris but the arrangements for the flight from Raleigh to New York were handled by the Security Detail and the Commerce Executive Aircraft Division. The Executive Assistant said that she provided the scheduled time the flight was to leave New York and that Commerce and the Security Detail took care of the rest.

We contacted the Flight Operations Assistant at the Executive Aircraft Division and she said that, when an agency requests the use of the State aircraft, the agency provides details such as destination, travelers, and times needed. If there is a connecting flight involved, Commerce and the Security Detail typically recommend allowing at least two hours for connecting flights due to unanticipated delays. However, the contracting agency ultimately makes the decision regarding how much time to allow prior to the connecting flight.

The Flight Operations Assistant remembered this flight and the limited time the Security Detail provided to make the connecting international flight. The Security Detail told her that they did not think they needed that much time. We reviewed an e-mail from the Executive Assistant to the Flight Operations Assistant which stated: “Is there a way for security to assist in connecting from the domestic terminal to the commercial international flights without the two hour waiting in the terminal lobby for security and check in both in New York and in De Gaulle?”

FINDINGS AND RECOMMENDATIONS (CONTINUED)

The Security Detail Sergeant that assisted with the flight stated that they normally allow about two hours to ensure connecting flights but, a New York State trooper assisting them upon their arrival, said that arriving an hour before the flight would be adequate. The New York trooper planned to help them speed through customs. The Security Sergeant said “We cut it close.”

The Executive Assistant said that they were informed by the airline that there was availability on the next scheduled flight the next day at 5:55 PM. But, they could not get a seat assignment until the next day and they were told that they needed to get back to the airport early. As a result, the group needed to spend the night in New York.

The Trooper initially said that he, along with the New York trooper and the Executive Assistant, called area hotels but did not find any with vacancies. The Trooper later admitted that he did not make any calls and thought that the Executive Assistant and the New York trooper made calls.

The Trooper said they then drove to the Warrick Hotel in Manhattan only to find no rooms available. The Warrick concierge found rooms nearby at the Essex House. The Executive Assistant said that she did not make any calls for a hotel. She said that she and the First Lady had stayed previously at the Warrick Hotel in Manhattan so they drove straight there. However, based upon our review, we determined that there was adequate hotel availability near JFK airport at substantially lower prices than the Essex House.

The Trooper was confused as to when the group actually returned to the airport the next day. Initially, he said that they went early in the morning but, when we showed him a receipt for a meal at the hotel at 12:24PM, he said, “Well, it might have been later.” We then asked him if they went anywhere else before going to the airport. He replied, “No, we went straight to the airport.” However, according to the Executive Assistant, the group slept in and, after eating lunch, visited the studio of an artist commissioned to paint a portrait of the Governor. Then, the group went to the airport and eventually left for Paris at 10:19 PM.

Based upon review of various schedules, the First Lady had no prior commitments on the day of departure, the Commerce plane used was not in operation earlier that day, and the Commerce Pilot had no other flights that day. As a result, there were no reasons for the flight to have not left earlier. As a result of this missed flight, Cultural Resources incurred over \$3,000 in additional costs as shown in Table 3. Better planning would have provided ample time for the connecting flight to Paris.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

TABLE 3	
ADDITIONAL COSTS RESULTING FROM MISSED FLIGHT	
Hotel (\$530.69 per room)	\$1,592.07
Meals	164.20
Private Car in Paris *	1,285.22
	\$3,041.49
* The driver awaiting the group's arrival in Paris was not notified about the missed flight and Cultural Resources was charged the daily rate.	
Source: Expense reimbursement requests and transportation invoices	

RECOMMENDATION

We recommend that Cultural Resources review their procedures related to planning trips to ensure that proper consideration is given to unexpected occurrences and delays to prevent incurring additional costs. At a minimum, management should allow two hours prior to any connecting flights.

6. THE 24-HOUR AVAILABILITY OF PRIVATE TRANSPORTATION FOR THE FIRST LADY WAS NOT NECESSARY IN FRANCE.

Cultural Resources contracted with a private transportation service to provide 24-hour availability of an automobile for the First Lady while in France. The total cost for this service was \$27,012.61. The vehicle was arranged through ETS Travel Service based in Frankfurt, Germany, a company recommended by Commerce. This company was used previously by Commerce during economic development missions in Europe.

An e-mail written by a Cultural Resource official to justify the payment of the invoice states the cost for the vehicle was “directly related to the necessary heightened security requirements.” However, according to the Security Detail Sergeant, no requirement existed. The Security Detail Sergeant said that the Security Detail is typically told what mode of transportation the First Lady will be taking and their duty is to evaluate the arrangement and “make it work.” The Sergeant indicated that, if an arrangement chosen presents a particular security issue, they may recommend an alternative. However, the decision is ultimately made by the agency planning the event and/or the First Lady.

We determined that the First Lady’s Executive Assistant requested the vehicle and driver because the First Lady’s travel group was to arrive and leave on different days than the tour group. In addition, the Executive Assistant wanted to have a vehicle available in case the opportunity arose to do other things aside from the group tour.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

According to our review, the First Lady rode the tour bus a significant time while in France. The Director said, when the First Lady was participating in the scheduled tour, she joined the group on the tour bus. The Executive Assistant said “it is best to ride on the bus so as to hear the tour director’s descriptions of the location.” Multiple persons informed us that the contracted private car simply followed the tour bus when the First Lady rode the bus. The First Lady rode in the private car in the evenings when the group was on its own for dinner or shopping and when traveling from city to city when they were in Compiègne. The Trooper providing security estimated that the First Lady rode the tour bus 60% of the time while in France.

The detailed invoice from the travel service shows the daily rate for a Mercedes GL 420 CDI Offroader and English-speaking driver as \$1,240.71 with eight hours driving and 100 km included in that rate. Table 4 provides an itemized breakdown of the total charges incurred for the use of the vehicle:

TABLE 4	
COSTS INCURRED FOR PRIVATE TRANSPORTATION	
Daily Rate (\$1,240.71 x 8)	\$ 9,925.68
Extra Hours (48 @ \$155.09)	7,444.32
Extra Miles (551km @ \$2.50)	1,377.50
Driver Tip	1,750.40
Driver's Hotel (\$167.23 x 8)	1,337.84
Driver's Meals (14 @ \$33.72)	472.08
Driver's Phone	196.90
Parking	248.14
Taxes	4,259.75
	<u>\$27,012.61</u>
Source: Transportation invoices	

In addition, we determined that the First Lady’s Executive Assistant paid for the driver’s three-night stay at the hotel and meals while in Compiègne even though these items were already included in the cost of the vehicle paid for by Cultural Resources. The total reimbursed to the Executive Assistant for these charges was \$1,007.41.

While there were times that a private vehicle was advantageous, we determined the need for around-the-clock availability was unnecessary due to “heightened security requirements” as stated by Cultural Resources officials. Our review of the First Lady’s subsequent trip to Tallinn, Estonia and St. Petersburg, Russia revealed that the First Lady’s travel group on that trip did not utilize similar transportation. Instead, the First Lady used the hotel shuttle, tour-provided transportation, and public taxis even though an e-mail from a Security Detail Sergeant cautioned that St. Petersburg is “a high crime city.” As a result, it appears the private vehicle was a convenience rather than a need for the First Lady’s group while in France.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Section 5.1.26, "Transportation by a Rental Vehicle" of the State Budget Manual prohibits the use of rental vehicles at State expense for personal convenience as follows:

"Rental vehicles may be used; however, rental vehicles are not to be used at state expense solely for the convenience or personal preference of the employee."

RECOMMENDATION

We recommend that Cultural Resources officials more carefully evaluate the cost and benefit of various modes of transportation when planning future trips. Cultural Resources officials should consult with the Security Detail and ascertain any special security needs and plan transportation services in the most cost-effective means available for the necessary security level.

7. A HOTEL CHANGE IN FRANCE RESULTED IN ADDITIONAL COSTS OF THE TRIP.

While in Compiègne, the majority of the tour participants stayed at the Mercure Compiègne Sud. Because of the late registration for the trip and due to limited room availability, some of the participants (including the First Lady, her former Executive Assistant, and the Trooper) were scheduled to stay at an alternate hotel, The Best Western Les Beaux Arts.

According to the Executive Assistant and the Trooper, the Best Western hotel was unacceptable accommodations. The Trooper described the hotel as "a dump." When shown a photograph of the Best Western from the hotel's website, the Executive Assistant said "this is a wonderful picture of a place we did not see." However, the Director admitted to us that he did not hear any complaints about the Best Western from other tour participants although he could not personally comment as to its condition.

According to the Executive Assistant, she "thought the other hotels in Compiègne would not be acceptable." The Executive Assistant said that the driver of their car called his company and found rooms for them at the Château de Barive in Sainte-Preuve. Sainte-Preuve is located approximately 100 km (60 miles) from Compiègne with an estimated drive time of approximately 1.5 hours each way. The group continued to participate in the events scheduled for the tour requiring the group to make a daily three-hour, round-trip drive.

According to the transportation service invoice, the First Lady's group incurred excess mileage for the days the group stayed in Sainte-Preuve. There were 551 excess kilometers (342 miles) shown on the invoice resulting in an additional charge

FINDINGS AND RECOMMENDATIONS (CONCLUDED)

of \$1,377.50. In addition, the increased drive time resulted in approximately six extra hours of time charged at \$155.09 per hour for a total of \$930.54. When adding the 10% driver gratuity, the total excess vehicle cost resulting from the alternate location was approximately \$2,539.

In addition, Cultural Resources previously paid a total of \$2,090.33 for the tour related to the Compiègne portion of the trip. That amount included three night's hotel as well as two breakfasts and two dinners. By changing hotels, Cultural Resources incurred additional costs of \$1,443 for lodging and \$457.36 for meals. Crime Control paid \$584.63 for the hotel and \$228.68 for meals for the Trooper that were also included in the tour package. The total extra cost resulting from the change in hotels was \$5,252.67.

Section 5.0.2, "Employee Responsibility" of the State Budget Manual states:

"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, delays, or luxury accommodations and services unnecessary, unjustified, or for the convenience or personal preference of the employee in the performance of official state business are prohibited."

RECOMMENDATION

We recommend that Cultural Resources officials consider providing its employees instruction regarding the State policies with respect to employee travel and reinforce the importance of considering all associated costs related to travel-related activities and planning decisions.

CONCLUSION

The First Lady's participation in two recent trips to Europe paid for by the Department of Cultural Resources (Cultural Resources) received much public scrutiny. Questions were raised as to the purpose and potential extravagance of the trips. (See Appendix A for total trip costs.) While the First Lady's involvement in the trips was consistent with her position as a public representative of the State and her role as "Ambassador of the Arts," the trips included little or no official State business.

Our review revealed that, due to inadequate planning and oversight, Cultural Resources incurred unnecessary costs associated with the trips as well as some costs prohibited by State travel regulations (See Appendix B). In addition, Cultural Resources management approved reimbursement requests related to the trips without an adequate basis to determine reasonable amounts.

The State Budget Manual provides clear guidelines for allowable amounts for travel-related expenses while conducting official business within the state as well as out of state. However, the guidelines allow extensive discretion when costs involve out-of-country travel. In fact, the only guidelines for out-of-country travel note that authorization must be obtained in advance, that excess lodging authorization must also be obtained in advance, and that "*the department head or his or her designee may grant excess subsistence for meals.*"

The guidelines also indicate that employees traveling on official State business are expected "*to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds.*" Our review indicated that there was limited effort made by Cultural Resource officials to develop criteria or form a basis as to what constituted a "reasonable" amount for a given expense. Instead, it appears a general assumption was made that everything overseas is expensive and no limits exist.

Cultural Resources management told us that they "trust[ed] our employees to do the right thing," that costs "did not seem unreasonable," and that "costs were consistent with previous reimbursement requests." However, our review determined that the meals and lodgings selected on these trips were often of the highest quality available rather than what one would expect a "prudent person" using taxpayer dollars would choose.

We utilized the U.S. Department of State, Office of Allowances "Foreign Per Diem Rates by Location" schedule that provides limits used by federal government agencies when traveling overseas and applied those standards to determine "reasonable" amounts that could be applied to overseas travel. While we realize that there is no State regulation that requires the use of a method to determine reasonable amounts, we offer this as an example. Most importantly, some effort should be made to consider reasonable amounts during the travel planning.

CONCLUSION (CONCLUDED)

Further, the Foundation which supports the Museum of Art established more stringent travel policies than those used by Cultural Resources. If the travel policy for a privately-funded, non-governmental entity that works in conjunction with Cultural Resources understands the distinction between business-related meals and entertainment as opposed to personal meals while traveling, it is reasonable to expect that a State agency should exercise similar care in planning and accounting for expenditures of public funds.

Cultural Resources management also believed that, because the First Lady is not a State employee, the travel regulations related to State employees do not apply. However according to the State Budget Manual, *“Non-state employees traveling on official state business whose expenses are paid by the state are subject to these regulations, including statutory subsistence allowances, to the same extent as are state employees.”*

The mission of Cultural Resources is to provide historical and cultural experiences to the State’s citizens and to promote North Carolina’s economic and social well-being. The agency also helps to provide arts, education, and cultural experiences to citizens and visitors. This mission is vital in providing the opportunity to experience a quality of life of which North Carolina citizens can be proud.

To fulfill its mission, Cultural Resource officials have indicated that trips such as the ones in this review are vital to acquiring landmark exhibits such as “Monet in Normandy.” They explained that the process to obtain these exhibits involves building relationships with museum directors, government officials, donors, and curators from around the world and we acknowledge those efforts. The value of these exhibits coming to North Carolina is inarguable and efforts should certainly continue to encourage these displays. However, the costs of these efforts should be closely monitored by management since the taxpayers fund these trips.

APPENDIX A

<u>TOTAL COSTS PAID BY STATE AGENCIES</u>					
	Total	France		Estonia/ Russia	
		Paid By		Paid By	
		Cultural Resources	Crime Control	Cultural Resources	Crime Control
Visas	\$1,225.00			980.00	245.00
Airfare					
Commercial	\$40,322.80	\$5,934.80		\$27,510.40	\$6,877.60
State aircraft	\$4,565.00	\$4,565.00			
Tours					
International Seminar					
Designs	\$8,985.00	\$8,985.00			
Friends of the Chateau					
De Compiegne	\$2,090.33	\$2,090.33			
Exeter International	\$2,700.00			\$2,700.00	
Private Transportation	\$27,473.01	\$27,012.61		\$460.40	
Hotels	\$16,261.25	\$3,225.88	\$1,117.01	\$8,635.81	\$3,282.55
Meals	\$5,690.33	\$1,530.31	\$493.11	\$3,307.04	\$359.87
Ballet	\$1,169.56			\$1,169.56	
Parking	\$30.00			\$30.00	
Exchange Fees	\$55.15	\$36.64	\$18.51		
Business Center/Phone	\$51.97		\$31.16	\$20.81	
Baggage Handling	\$165.00		\$75.00	\$50.00	\$40.00
Total	\$110,784.40	\$53,380.57	\$1,734.79	\$44,864.02	\$10,805.02
		\$55,115.36		\$55,669.04	

APPENDIX B

UNREASONABLE AND UNALLOWABLE COSTS						
	France			Estonia/ Russia		
	Total	Unreasonable Costs	Unallowable Costs	Unreasonable Costs	Unallowable Costs	
Tours Private	\$2,700.00			\$2,700.00		
Transportation	\$27,076.31	\$27,012.61		\$63.70		(3)
Hotels	\$11,758.06	\$3,619.70		\$8,138.36		(4)
Meals	\$3,183.32	\$850.24	\$331.17	\$1,262.05	\$739.86	(5)(6)
Ballet	\$1,169.56			\$1,169.56		
Total	\$45,887.25	\$31,482.55	\$331.17	\$13,333.67	\$739.86	

(1) Cost related to stay in New York City due to missing connecting flight as well as the cost of alternate hotel in Compiegne when hotel cost was already included in tour package.

(2) \$331.67 for personal purchases made by First Lady's Former Executive Assistant.

(3) Transportation to the Ballet, reimbursed to Secretary

(4) Based on the U.S. Department of State Foreign Per Diem Rates Saint Petersburg, Russia for May 2008
 Maximum allowable lodging per day is \$315 for 4 people for 3 nights = \$3,780
 Total Hotel Cost \$11,918.36 less the per diem amount of \$3,780 = \$8,138.36

(5) Based on the U.S. Department of State Foreign Per Diem Rates Saint Petersburg, Russia for May 2008
 Maximum allowable per day, Meals and Incidentals, \$111, 5 people, 3 days (May 12-May 14) = \$1,665
 Total Meal Costs \$3,666.91 less alcohol \$739.86 = \$2,927.05 less the per diem amount of \$1,665 = \$1,262.05

(6) Alcohol and "other" food \$739.86

RESPONSE FROM NORTH CAROLINA DEPARTMENT OF CULTURAL RESOURCES



North Carolina Department of Cultural Resources Office of the Secretary

Michael F. Easley, Governor

Lisbeth C. Evans, Secretary

October 28, 2008

The Honorable Leslie W. Merritt, Jr.
State Auditor
North Carolina Office of the State Auditor
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Auditor Merritt:

The Department of Cultural Resources (the "Department") has received, in confidential draft form, the October 2008 Special Review (the "Review") of the North Carolina Department of Cultural Resources.

While the Department disagrees with your conclusions regarding "unreasonable costs," after thoughtful consideration of your observations and recommendations, the Department will expend private contributions to pay for any costs you have characterized as "unreasonable." Please note that costs listed as "unallowable" have been previously re-paid to the Department.

Again, thank you for the opportunity to address this Special Review. Please feel free to contact me with any questions you may have.

Sincerely,

A handwritten signature in cursive script, appearing to read "Staci Meyer".

Staci Meyer, Chief Deputy Secretary
North Carolina Department of Cultural Resources

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ORDERING INFORMATION

Copies of this report may be obtained by contacting the:

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Raleigh, North Carolina 27699-0601

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