

# STATE OF NORTH CAROLINA

## INVESTIGATIVE REPORT

WINSTON-SALEM STATE UNIVERSITY

WINSTON-SALEM, NORTH CAROLINA

SEPTEMBER 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

## **EXECUTIVE SUMMARY**

### **PURPOSE**

The Office of the State Auditor investigated allegations that Winston-Salem State University Facilities Management Division staff misused vehicles owned by the university.

### **BACKGROUND**

Winston-Salem State University was established in 1892 and merged into the University of North Carolina system in 1972. Annually, funds are provided for routine maintenance, general non-routine maintenance, and operations of the university's physical buildings.

### **KEY FINDINGS**

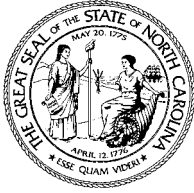
- Facilities employees were not required to pay commuting fees for daily transportation between the university and their homes.
- Investigators determined the financial benefit totaled \$45,000 for these employees from January 2012 through March 2013.
- Employees may have violated IRS regulations and state law by not paying a commuting fee.

### **KEY RECOMMENDATIONS**

- The University should immediately stop allowing these employees to commute daily in university vehicles.
- The facilities vehicles should be parked at a central location on campus and used by Facilities Division staff only after commuting at their own expense.
- The University should consider requiring the repayment of benefits derived from the private use of these publicly-owned vehicles.

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

# Office of the State Auditor



**Beth A. Wood, CPA**  
State Auditor

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

## AUDITOR'S TRANSMITTAL

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The Honorable Pat McCrory, Governor  
Members of the North Carolina General Assembly  
Mr. Peter D. Hans, Chairman, Board of Governors, The University of North Carolina  
Mr. Thomas W. Ross, President, The University of North Carolina  
Mrs. Debra Miller, Chair, Board of Trustees, Winston-Salem State University  
Dr. Donald J. Reaves, Chancellor, Winston-Salem State University

Ladies and Gentlemen:

Pursuant to *North Carolina General Statute §147-64.6(c) (16)*, we have completed an investigation of allegations pertaining to Winston-Salem State University. The results of the investigation, 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 *G.S. §147-64.6 (c) (12)*. We appreciate the cooperation received from the management and employees of Winston-Salem State University during the investigation.

Respectfully submitted,

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

Beth A. Wood, CPA  
State Auditor

September 23, 2013

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## INTRODUCTION

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The Office of the State Auditor received allegations through the *State Auditor's Hotline* concerning the possible misuse of vehicles owned by Winston-Salem State University (University) and assigned to the Facilities Management Division (Facilities) staff. Allegedly, staff members were allowed to use vehicles to commute to and from their homes at no cost. In addition, it was alleged that mileage logs were not kept for these university-owned vehicles.

The investigation of these allegations included the following procedures:

- Review of applicable *North Carolina General Statutes* and federal regulations
- Review of North Carolina Department of Administration, Motor Fleet Management regulations
- Review of the University's procedures
- Analysis of applicable university records
- Interviews with university management and staff.

This report presents the results of our investigation. The investigation was conducted pursuant to *North Carolina General Statute § 147-64.6 (c) (16)*.

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## ORGANIZATION OVERVIEW

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Winston-Salem State University (University) was established in 1892 and chartered by the State of North Carolina in 1897 as Slater Industrial and State Normal School. Renamed Winston-Salem Teachers College in 1925, it was the first African-American institution in the United States to grant degrees in elementary teacher education. The name was changed to Winston-Salem State University in 1969, and it merged into the University of North Carolina system in 1972.<sup>1</sup> The University is one of 16 constituent institutions in the University of North Carolina system. A Board of Trustees oversees its operations at the institutional level. The University's Chancellor and other senior administrators manage day-to-day operations.

### Facilities Management Division

The University's Facilities Management Division (Facilities), organizationally located in the University's Finance and Administration Division, provides a safe and functional physical environment for teaching, learning, and recreation. Annually, funds are provided to Facilities for routine maintenance, general non-routine maintenance, and operations of the University's physical buildings. Facilities is responsible for the construction and maintenance of approximately 30 University buildings.<sup>2</sup>

An Associate Vice Chancellor of Facilities oversees the Facilities Management Division. Several administrative staff report to the Associate Vice Chancellor, along with the Director of Design & Construction, Director of Facilities Operations, Interim Director of Building Environmental Services, and the Business Manager.

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<sup>1</sup> <http://www.wssu.edu/administration/chancellors-office> and [http://en.wikipedia.org/wiki/Winston-Salem State University](http://en.wikipedia.org/wiki/Winston-Salem_State_University)

<sup>2</sup> Ibid.

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## FINDINGS AND RECOMMENDATIONS

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### **FACILITIES EMPLOYEES WERE NOT REQUIRED TO PAY COMMUTING FEES.**

From January 2012 through March 2013, 11 Winston-Salem State University (University) Facilities Management Division (Facilities) employees used university vehicles to commute between their homes and work. These employees were not charged a commuting fee and no deduction was taken from their pay for this financial benefit. The University paid for gasoline, maintenance, repairs, tires, insurance, and license and registration fees for these vehicles. Investigators determined the financial benefit the 11 employees received from this commuting activity totaled \$45,000<sup>3</sup> for the period.

Internal Revenue Service (IRS) regulations<sup>4</sup> explain that “you provide an employee with a fringe benefit when you allow the employee to use a business vehicle to commute to and from work.” Also, IRS regulations specify that, “any fringe benefit you provide is taxable and must be included in the recipient’s pay unless the law specifically excludes it.” Additionally, *North Carolina General Statute §143-341(8)i7a* specifies that “every individual who uses a State-owned<sup>5</sup> passenger motor vehicle, pickup truck, or van to drive between the individual’s official work station and his or her home, shall reimburse the State for these trips.” According to the University’s Payroll Manager and Internal Revenue Service Wage and Tax Statements, the employees assigned to these university vehicles did not reimburse the University for the fringe benefit they received. As a result, these employees may have violated IRS regulations and state law.

#### University Justification for Commuting

As 11 Facilities employees became members of a supervisory team or were given the assignment of responding to repairs at the Chancellor’s home, they were allowed to drive their university maintenance vehicles home and back daily at the University’s expense. The commuting was permitted even though all university repairs and maintenance, except those at the Chancellor’s residence, were performed at buildings on campus.

Two employees were allowed the commuting privilege because they were specifically on-call<sup>6</sup> for maintenance or repairs at the Chancellor’s residence. These two employees were scheduled to be on-call every other week, but they continued to have the daily commuting benefit for the weeks when they were not on-call. Additionally, in the event of a service call at the Chancellor’s residence, one of these two employees had to travel past the University en route to the Chancellor’s home.

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<sup>3</sup> The calculation of benefits for the use of the vehicles was based on the round-trip mileage from the Facilities employees’ homes to the University and then applying the federal reimbursement rates for travel 20 days per month. *N.C.G.S. §143-341(8)i 7a* outlines that “a reimbursement shall be for 20 days per month regardless of how many days the individual uses the vehicle to commute during the month.”

<sup>4</sup> Department of the Treasury, Internal Revenue Service, *Publication 15-B Employer’s Tax Guide to Fringe Benefits, 2013*

<sup>5</sup> *N.C.G.S. §143-341(8)i 7a* “state-owned passenger motor vehicle includes any state-owned passenger motor vehicle, whether or not owned, maintained or controlled by the Department of Administration, and regardless of the source of the funds used to purchase it.”

<sup>6</sup> Time period when an employee must remain available to be called back to work on short notice if the need arises.

## FINDINGS AND RECOMMENDATIONS (CONCLUDED)

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According to the Associate Vice Chancellor of Facilities, staff received permission to commute at the University's expense as a means to improve customer service and to provide a benefit to the employee.

### Inadequate Policies and Procedures

Investigators found that the University had no written policies or procedures that determined the assignment of these vehicles. The University maintained no documentation<sup>7</sup> to show which employee was assigned to each vehicle. Furthermore, mileage logs<sup>8</sup> did not exist, thus increasing the risk that employees were using the vehicles for more than commuting.

## RECOMMENDATIONS

The University should immediately stop allowing Facilities employees to commute daily in university vehicles.

The Facilities vehicles driven home daily should be parked at a central location on the University's campus and used by Facilities staff only after commuting at their own expense, unless university management specifically approves otherwise. If there are situations where university management allows commuting in university vehicles, the University and employees should adhere to Internal Revenue Service regulations and state law.

The University should consider requiring either the repayment of benefits or the amendment of Internal Revenue Service *Wage and Tax Statements* to reflect the taxable fringe benefit derived from the private use of publicly-owned vehicles.

The University should develop and communicate formal procedures on vehicle assignment and use.

The University should maintain travel logs for its vehicles and the logs should be completed on a daily or trip basis. Log entries should be reviewed periodically to determine if the information accurately reflects the use of vehicles.

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<sup>7</sup> Documentation was developed and provided during the investigation.

<sup>8</sup> Journal to document mileage to daily destinations.

# WINSTON-SALEM STATE UNIVERSITY RESPONSE

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DONALD JULIAN REAVES, PH.D.

CHANCELLOR

September 16, 2013

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

Dear Ms. Wood:

This is in response to your draft investigative report which provided recommendations associated with an investigation of employees of Winston-Salem State University (WSSU) not being charged a commuting fee or incurring a deduction from pay for the financial benefit of personal use of State-owned vehicles.

We appreciate the assistance in identifying this issue and the work of your Investigative Division team in validating concerns and defining the scope of the problem. Specifically, we are grateful for the work of Mr. David King, Director of Investigative Division; Mr. Lawen Becote, Supervisor, Investigative Division; and Ms. Denise Roberts, Investigator.

The following are specific responses to the recommendations you provided:

- a. *Recommendation: The University should immediately stop allowing Facilities' employees to commute daily in university vehicles.*  
Response: Concur. The practice of permitting employees to commute in university vehicles was ended September 16, 2013.
- b. *Recommendation: The Facilities' vehicles driven home daily should be parked at a central location on the University's campus and used by Facilities' staff only after commuting at their own expense, unless university management specifically approves otherwise. If there are situations where university management allows commuting in university vehicles, the University and employees should adhere to Internal Revenue Service regulations and state law.*  
Response: Concur. University vehicles are now centrally located on campus and are not used by staff for commuting purposes. Should instances of commuting become necessary in the future, all IRS regulations and North Carolina statutes will be observed.

## WINSTON-SALEM STATE UNIVERSITY

200 BLAIR HALL • WINSTON-SALEM, NORTH CAROLINA • 27110  
PHONE: 336-750-2041 • FAX: 336-750-2049 • E-MAIL: reavesdj@wssu.edu

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Ms. Beth A. Wood, CPA  
September 16, 2013  
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- c. *Recommendation: The University should consider requiring either the repayment of benefits or the amendment of IRS Wage and Tax Statements to reflect the taxable fringe benefit derived from the private use of publicly-owned vehicles.*

Response: Concur. We are currently researching the exact usage of University vehicles for private/commuting use using all available records. We will complete the analysis by November 1, 2013 and take action to either gain repayment of benefits or amend Wage and Tax Statements as appropriate by November 22, 2013.

- d. *Recommendation: The University should develop and communicate formal procedures on vehicle assignment and use.*

Response: Concur. A University policy and supporting procedures are under development and should be complete by November 22, 2013. The policy will be presented to the University Board of Trustees for approval at the next meeting which is scheduled for December 6, 2013.

- e. *Recommendation: The University should maintain travel logs for its vehicles and the logs should be completed on a daily or trip basis. Log entries should be reviewed periodically to determine if the information accurately reflects the use of vehicles.*

Response: Concur. Travel logs and procedures for maintaining and periodically validating them are in development and will be completed by October 27, 2013.

The University's Interim Vice Chancellor for Finance and Administration, Randy Mills, and the Associate Vice Chancellor for Facilities, Owen Cooks, are responsible for ensuring these actions are completed within the specified timeframe.

Once more, let me offer my thanks to you and your Investigative Division for your assistance in identifying and correcting the deficiencies in our practices. If you have any questions or concerns, please contact Ms. Shannon Henry, WSSU Director of Internal Audit, (336) 750-2020; Dr. Mills at 336-750-2700; or Mr. Cooks at 336-750-2855.

Sincerely,



Donald Julian Reaves, Ph.D.

pc: Mr. Owen Cooks, Associate Vice Chancellor of Facilities  
Ms. Shannon Henry, Internal Auditor  
Dr. Randy Mills, Interim Vice Chancellor of Finance and Administration

## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

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For additional information contact:

Bill Holmes  
Director of External Affairs  
919-807-7513

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This investigation required 241.5 hours at an approximate cost of \$17,388.