



**Winston-Salem State University | University of North Carolina School of the Arts
Office of Internal Audit & Institutional Compliance**

601 S. Martin Luther King Jr. Drive
Winston-Salem, North Carolina 27110
phone 336.750.2065 | fax 336.750-8891
www.wssu.edu | www.uncsa.edu

December 20, 2013

Ms. Lynne Sanders, CPA
UNC FIT Deputy Program Management Officer
UNC-General Administration
140 Friday Center Drive
Chapel Hill, NC 27517

Dear Ms. Sanders:

North Carolina G.S. 116-30.1 requires that Winston-Salem State University (WSSU) make satisfactory progress toward resolving Office of State Auditor findings within a three-month period. The following report addresses the findings noted in the Office of the State Auditor investigative audit report released on September 23, 2013.

The report includes a restatement of the auditors' original findings and recommendations, the University's response and corrective action plan, and a summary section explaining the results of Internal Audit's review procedures and opinions.

Respectfully Submitted,

A handwritten signature in black ink that reads "S B Henry".

Shannon B. Henry
Chief Audit Officer and Executive Director of Institutional Compliance

Cc: Mr. Thomas Ross, President of the University of North Carolina
Mr. Charles Perusse, Vice President for Finance, UNC-GA
Ms. Beth A. Wood, State Auditor
Mr. Donald J. Reaves, WSSU Chancellor
Dr. Randy Mills, Vice Chancellor for Finance and Administration (WSSU)
Mr. Ben McLawhorn, Risk Mitigation Services Manager, OSC
Audit Committee, WSSU Board of Trustees

AUDIT FINDINGS AND RESPONSES

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 \$45,000³ for the period.

Internal Revenue Service (IRS) regulations⁴ 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-owned⁵ 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-call⁶ 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.

³ 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.”

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

⁵ *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.”

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

AUDIT FINDINGS AND RESPONSES (CONTINUED)

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 documentation⁷ to show which employee was assigned to each vehicle. Furthermore, mileage logs⁸ 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.

UNIVERSITY'S RESPONSE

The University concurs with the findings.

The practice of permitting employees to commute in University vehicles was ended September 16, 2013.

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.

⁷ Documentation was developed and provided during the investigation.

⁸ Journal to document mileage to daily destinations.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

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, 2103.

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.

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

INTERNAL AUDIT'S REVIEW

Based on our review of the available evidence and inquiry of staff, we determined the following related to the details mentioned in the audit findings as of our report date:

1. Following the release of the investigative audit report, affected employees were advised that they would no longer be allowed to use University vehicles to commute between their homes and work. The University provided evidence that the vehicles were parked effective September 16, 2013.
2. On December 18, 2013, after working hours, Internal Audit conducted an inventory of the 11 vehicles and observed each vehicle parked on the University's campus.
3. Following the release of the audit report, University Management engaged an external CPA firm to provide tax consulting services regarding this matter. As a result of this engagement, the University chose the option to amend each individual's 2012 and 2013 wage and tax statements to reflect the taxable fringe benefits derived from each individual's private use of the University's vehicles. Benefits were calculated using the methodology provided by North Carolina General Statute §143-341(8)i7a (referenced above). The University determined the taxable fringe benefits provided to the employees, throughout the scope of the audit report and beyond, totaled approximately \$63,000. Affected employees were notified via letter and the University is in the process of preparing this information for appropriate submission to the Internal Revenue Service.
4. On December 6, 2013, the University's Board of Trustees approved a new *Vehicle Use for University Business Policy* that specifically addresses vehicle assignment and use. The policy requires the maintenance and review of travel logs and adheres to Internal Revenue Service regulations and State law. The policy was communicated University-wide via email distribution and is available on the University's website.

INTERNAL AUDIT'S OPINION

It is our opinion that satisfactory progress has been made toward resolving this finding.