

Audit of the Division of Workforce and Economic Development

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CSN Internal Audit Department – Project 2007-4

INTRODUCTION

The Division of Workforce and Economic Development (DWED) is a self-supporting operation at the College of Southern Nevada (CSN). It has been in existence since approximately January 2005 when several different organizational functions were merged under a single director. After the start of calendar year 2006, a dean was named for DWED and additional directors were hired to concentrate efforts on the different markets that DWED engages.

DWED was created to provide a central point for business, industry, government and area citizens to obtain instruction and learning opportunities. DWED advertises that its workforce specialists encompass many occupational areas and assist in the assessment of the region's business and industry educational and training requirements to provide customized solutions.

From the beginning of calendar year 2000 through December 2006, the stand-alone accounting system used by DWED and its predecessors, reported that it generated approximately \$ 3,532,000 in revenue. During that period of time DWED provided services to approximately 250 customers, and as of December 2006, DWED employed about 25 personnel.

DWED performs processing and record-keeping for the Employment Eligibility Verification (I-9) process.

SCOPE

This audit was performed from January 2007 through June 2007. We reviewed DWED accounting records and instructor employment files covering the period January 2000 through December 2006, and expanded our review as necessary to evaluate internal controls.

We assessed the prevailing business environment of DWED programs by examining the collective picture presented by system documents, observations, and interviews of employees. We applied judgmental and random sampling techniques to accomplish this audit and conducted it in accordance with generally accepted audit standards.

OBJECTIVES

The objectives of the audit were to evaluate DWED's accounting system to determine if it followed generally accepted accounting practices and provided adequate financial information to CSN managers. Our objectives also included review of the transition from a stand-alone DWED accounting system to the CSN Advantage accounting system to determine if revenues were allocated to the appropriate accounts. We also evaluated documentation for DWED expenses to determine if it adequately supported the reason for the expense. We examined administration of delinquent accounts to determine if

they were adequately controlled, and we tested DWED administration of employment eligibility verifications against Federal standards to determine if it was in compliance.

OVERALL EVALUATION

It is in the best interest of CSN for DWED to provide improved visibility of financial performance. Adequate, accurate, and periodic reports of financial performance of DWED's financial operations have not been provided to CSN management in the past.

In a significant number of cases, revenue represented in DWED's stand-alone accounting system that should have been transferred to accounts in the Advantage system could not be confirmed to be in the appropriate Advantage account. Some of the transfers were not adequately documented and others could not be tracked because of missing documentation.

A substantial number of DWED expense transactions were questionable or missing supporting documents.

DWED's efforts at managing delinquent accounts were inadequate to either pursue them for collection or provide documentation of authorization to write them off.

Improvement is needed to bring DWED into compliance with Federal Employment Eligibility Verification Form (I-9) requirements. CSN may face fines for DWED practices, should it be audited by Federal agencies conducting employment eligibility audits.

Internal controls over employee contract administration are not reliable for bringing all DWED instructors under contract on a timely basis.

The above issues occurred over a number of years and some relate to various DWED personnel who are no longer employed at CSN. There are indications that with the arrival of a new Dean in 2006, controls over DWED operations are improving. The findings and recommendations below should help the improvement process by bringing controls to DWED operations based on sustainable and reliable policy and procedure.

FINDINGS

1. Financial Reporting:

Adequate, accurate, and periodic reports of financial performance of DWED and its predecessors have not been compiled or available for CSN senior management over the last seven years. Because it is a self-supporting operation, it is not adequately included in CSN financial statements, and until the start of FY 2007, DWED operated its own accounting system for invoicing customers.

With approximately \$3.5 million in generated revenue and similar expenses incurred since FY 2000, it is in the best interest of CSN to have visibility of DWED's performance and have the ability to accurately measure performance levels.

The current form of DWED financial reporting is a quarterly report that was started within the last year. The audit evaluated the quarterly report and concluded that it focuses on revenue, does not include offsetting expenses, and does not agree with the CSN Advantage accounting system.

A. DWED's reported revenue is generally based on calculating the estimated number of students in DWED's class listings multiplied by the tuition rate for the classes rather than using actual receipts and including the value of accounts receivable. Comparison of the data in the current report against the CSN Advantage accounting data shows the DWED solution is not accurate.

B. Even for operating quarters that are now history and which could be relied on as more representative of actual revenue (because accounts receivable would be less of a factor), DWED still uses estimated revenue rather than Advantage data.

C. The DWED report obscures the actual performance of revenue compared to expense. Senior managers who would use the current report would not know whether the reported revenue was less than or greater than expenses. The amount of shortfall or excess is an important factor to know in assessing DWED operations.

D. The current DWED report also fails to show carry-over (excess) revenue generated in prior years that may be available in some DWED accounts to offset shortages in the current year. The lack of carry-over data to offset current shortfalls is also an important financial issue that should be reported to management.

E. The information in the following report sections on accounting for and managing revenues, expenses and write-offs emphasizes the need for financial reporting.

F. The audit estimated the possible trends of current DWED performance and determined that revenue generation for some DWED accounts should be adequate to sustain them but other accounts indicate they may not fully recover costs. Only an adequate and accurate accounting would indicate future conditions.

Causes for these conditions:

A. DWED does not have an adequate accounting function and the DWED personnel who have been providing financial reporting do not have access to the CSN financial data warehouse.

B. The DWED Director of Business Services, Community Programs, and Adult Basic Education Programs stated on several occasions during the audit that DWED has no responsibility for accounting and that CSN Financial Services had such responsibility. The audit compared those statements against the responsibilities of CSN Financial Services and found them to be in contradiction.

C. CSN does not have policies requiring DWED to provide financial reports or standards to be met in financial reporting.

2. Reporting of Revenue from the Stand-Alone DWED Accounting System.

Until approximately June 2006, DWED operated its own billing and receipting functions. It received payments from customers and entered the amounts into its stand-alone accounting system. Revenue was deposited at CSN Bursar's offices at which time the Advantage account number was identified by DWED as to which revenue account the deposit should be credited.

The audit assessed the reliability of reporting revenue from the stand-alone system to CSN accounts. We evaluated transactions to determine if the amounts reported were correct and whether the correct CSN account was credited.

We tested 247 of approximately 2770 revenue transactions. Results showed that:

The correct Advantage account was credited for 118 transactions,

For 129 transactions, the Advantage account number credited was not the same as the account number in the stand-alone system or documentation was inadequate or unavailable to support and track the transaction. The audit gave consideration to changes that happened in the chart of accounts during the time period.

As a result, the audit could not confirm that all funds were accounted for in Advantage. The 52 percent error rate found from sampling is indicative that the same error rate may also be true for all revenue transactions.

There were indications during interviews with DWED staff that a prior manager arbitrarily selected the Advantage account to credit rather than using the correct account.

Causes for these conditions:

A. Internal accounting controls were not used by DWED to check the accuracy (or balances) of its accounting transactions. DWED operated its billing and deposit system without knowing if all funds were accounted for.

B. DWED did not bring accounting records under adequate custody.

3. DWED Expenses:

Audit testing showed that 69 of 92 expense transactions were not adequately supported to show why they were incurred, lacked information to show how they were calculated; or resulted in questionable charges because the expense was not consistent with the stated purpose of the account to which they were charged. We expanded testing to examine transactions that were of the same nature as the unsupported transactions to determine the overall impact of the weaknesses. Examples of problems:

A. Supporting calculations were unavailable for almost all overhead distributions. Overhead distributions moved more than \$771,000 in expenses into DWED's various accounts over fiscal years 2003, 2004 and 2005. Supporting calculations should have shown that overhead costs were distributed to each DWED account for its share of printing and other costs. The practices followed in those years gave DWED the ability to enhance some accounts by shifting costs to other accounts. This practice would have disguised the true financial performance.

B. The Hospitality Institute account was charged for a tractor rental for \$593.50. The reason for the rental was questionable.

C. A cost of \$100 was incurred for a car used in skid testing. The car was driven about 5.5 miles one way from the Cheyenne campus to Las Vegas Boulevard, passing numerous other, lower cost car washes in order to pay \$100.00 for the wash.

D. For a one-time sprinkler repair class, tools costing \$307.80 were purchased. The nature of the tool purchases was inconsistent with the needs of the class.

E. Luggage costing \$200.00 was purchased for a DWED specialist. No other specialist received such purchases. The justification for the luggage was questionable.

F. The reimbursement rate for a specific instructor was unexplainably higher than for other instructors. For example, business writing instructors were paid \$30 per hour. Other instructors were paid \$50 per hour for "accounting for non-financial managers" courses, \$50 for "customer service English" courses, \$50 for "manager/supervisor" courses, and \$30 for Microsoft Access and Excel courses. By comparison, an instructor was given a contract for curriculum development for a course on "general grooming and image" and paid \$75 per hour for 25 hours (\$1,875.00). The possibility exists of inconsistent pay for this instructor because of a spouse relationship to a DWED specialist.

G. An expense to a Las Vegas sanitation company for \$1,000 is without explanation.

H. Ten model trucks were purchased for \$620. The level of expense is questionable.

I. Various expenditures at retail stores indicated last minute purchases rather than planning and using established CSN vendors.

Causes for these conditions:

A. DWED does not have standards in place to require all expense documents to contain adequate supporting explanations and to identify the specific projects to which they are related.

B. DWED specialists are not held accountable for expenses incurred on their accounts.

4. Write-offs and Voids of Balances Due:

The audit identified 21 accounts that contained amounts designated as "bad debts" or "voids" that were effectively written off instead of being pursued or collected. The amounts were listed in the DWED accounting system and totaled in excess of \$63,000. We could not find convincing evidence of collection efforts or resolution in DWED's records or payment in the Advantage accounting system. The audit showed that CSN Business Services, which now provides billing services for DWED, recognized some of the problems and attempted to resurrect the accounts and collect them.

Authorizations for DWED to write off the amounts could not be found during the audit and we could not find information showing senior level CSN managers were advised of the write-offs.

Causes for these conditions:

A. DWED has no policies or procedures stipulating the conditions for writing off amounts due from customers, or requiring authorization from a manager with functional responsibility separated from billing customers or collecting accounts receivable.

B. DWED operates without visibility of its expense transactions.

5. In-Kind Trade Accounting:

In-kind trade accounts are created by provisions in contracts with DWED customers where the customer allows use of its goods and services at a value equal to part of the cost for services provided by DWED. CSN and the customer reach a contractual agreement for services provided by DWED, the customer pays in cash for part of the

value of services, and allows CSN to use its facilities "in trade" at a level equal to the balance due.

The audit showed that the trade account was used for official purposes but that it was also used for extensive unofficial purposes, at times for their own personal benefit.

DWED's managers did not bring the trade account under accounting control after administrative assistance from CSN Financial Services ended on June 30, 2003. DWED did not have procedures in place to specify how the trade accounts would be accounted for, who had responsibility for the accounting, and to whom the trade account activity would be reported. No records of the trade account were found at CSN after an extensive search and CSN is without data showing it received the full trade amount.

The trade accounts were CSN assets and should have been controlled and accounted for under CSN requirements which apply to all CSN resources.

By IRS definition, non-cash benefits received by CSN employees for events that were not officially sanctioned constituted taxable income and employees should have received Form 1099 for the value received.

6. Employment Eligibility Verification Form (I-9) Processing:

The I-9 process is designed to verify who is authorized to work in the United States by examination of credentials provided by a job applicant. Its purpose is not to determine who is and is not a citizen. Verification must occur within three working days of the start of employment according to Federal requirements. CSN employment contracts establish an employment relationship between the instructor and CSN. They also establish a date of employment which can be used for the I-9 process. DWED maintained about 378 files containing I-9 certifications it has processed for instructors.

The audit examined 294 or about 78 percent of DWED's I-9 certifications on file.

Of the records examined, 135 were out of compliance with Federal I-9 certification requirements.

Conditions included employment files with no I-9 forms (21), starting work before processing an I-9 (47), not entering a start-of-work date (91), no attestations of citizen status (3), accepting expired credentials (10), and certification beyond three business days of actual start of work (71). Many of the files contained multiple problems. The audit also showed that in many cases the start-of-work date on the I-9 did not agree with the start-of-work date on the supporting CSN contract (47) making the date for start-of-work on the I-9 questionable which could increase the number of noncompliant I-9 certifications.

Additionally, the DWED record keeping system did not separate I-9 files for working instructors from files for instructors who were not currently working, making administration and tracking I-9 forms and credentials difficult. For at least 199 instructor files, contracts showed they were not signed until after actual employment started. A

number of contracts (59) were signed by the instructor more than 30 days after the actual start of work. Handwritten changes to some I-9 forms and contracts were made without explanation or initials of the person who made the changes.

The conditions stemmed from:

- A. Non attendance at required I-9 training.
- B. Absence of CSN policy that indicates which departments are responsible for administering I-9 forms, requires tracking and re-verification for expiring credentials, and prevents employees from working without a signed contract.
- C. Lack of supervisory monitoring of instructor file administration in DWED to include oversight of I-9 processes.

In many of the 135 cases, correction of the noncompliant I-9 forms may require re-accomplishing the verification rather than updating them because some omissions and mistakes cannot be retroactively corrected. Some of the records can be partially corrected by requesting instructors to return to CSN to verify their eligibility, but many former instructors are not available and correction of the noncompliance issues may be difficult or impossible which would leave CSN with noncompliant I-9 forms. Even for instructors that are still available and return to CSN for verification, the three business day requirement cannot be corrected.

We estimate that 174 of all DWED's I-9 files have certification compliance problems.

According to the Employer Information Bulletin 111, Penalties for Prohibited Practices, dated March 16, 2005, issued by the US Department of Homeland Security (DHS), "employers who fail to properly complete, retain, and/or present Forms I-9 for inspection as required by law may be subject to a civil penalty for violations occurring on or after September 29, 1999 from \$110 - \$1,100 per employee whose Form I-9 is not properly completed, retained, and/or presented. For violations occurring before September 29, 1999, civil penalties range from \$100 to \$1,000. In determining the amount of the civil penalty, the following factors are considered: size of the business of the employer being charged; the good faith of the employer; the seriousness of the violation; whether or not the individual was an unauthorized alien; and the history of previous violations of the employer."

If audited and if fines were imposed, they could be substantial. The likelihood of an external audit is unpredictable.

AUDIT RECOMMENDATIONS AND MANAGEMENT RESPONSES

We recommend the following actions:

1. Financial Reporting: Implement policy that assigns responsibility to DWED for providing financial reports to CSN senior management.

Management Response: Concur. See response to recommendation 2 below.

2. Financial Reporting: Require quarterly financial summaries and annual financial statements. Require reports to include revenue, accounts receivable, expenses, carry-overs, write-offs and voids, and other significant issues.

Management Response: CSN will implement a policy that requires revenue producing entities, of greater than \$25,000 per fiscal year, excluding grants and contracts, plant funds, endowments, loan, agency, gift and scholarship funds, or as determined by the Vice President of the respective area or the President to issue one-page quarterly financial summaries and an annual financial report describing the previous 12-months operation. The reports must show financial performance comparing budgeted revenues and expenses to actual receipts and expenditures, and may include accounts receivable in quarterly summaries.

Annual reports will include carry-overs, accounts receivable, actual revenue receipts and expenditures for the fiscal year and any other significant issue necessary for senior management to be informed of the entity's financial position and performance. The annual reports will include items such as service levels provided, training programs offered, contracts initiated and completed, and/or number of child care participants. A format will be provided to reporting entities. Estimated completion date to forward a draft policy to senior management for approval: November 16, 2007.

3. Financial reporting: Implement an adequate accounting function in the DWED operation to include accounting controls such as trial balances; and provide access to Advantage accounting data.

Management Response: Concur. DWED will ensure that appropriate supporting documentation is on file within the divisional office for any cost sharing expenditures that relate to programmatic activity. An accounting function will be added and policy will be implemented in DWED to detail accounting controls that will be consistent with generally accepted accounting standards. The process for allocation of costs within the division (such as printing expense) will be reviewed this fall by the dean, directors, specialist and operations coordinator. The process, including staff assigned to the process, will be implemented for spring 2008 as a formal written procedure. Estimated completion date: February 29, 2008.

4. **Transferred Revenue Balances:** Accept the account balances from DWED's stand-alone accounting system provided a letter is sent to the CSN Controller that explains the balances transferred are questionable.

Management Response: Concur. The Dean will provide a letter to the CSN Controller that explains the balances transferred and the how the transfer of funds will occur. Estimated completion date: September 28, 2007.

5. **Expense Accounting:** Set standards for supporting expense transactions to include the DWED specialist's signature, adding notes to supporting expense documentation that explain the reason for the expense, shows the calculation for distributions of expenses to multiple accounts, and indicates the specific DWED project to which the expense is related.

Management Response: Concur. DWED will adopt a practice of adding notes to all expense documents that explain the reason for the cost, identify the DWED program and account number it is associated with, and be signed by the specialist and appropriate manager who can account for the expense. Estimated completion date: September 30, 2007

6. **Bad Debt Write-Offs:** Establish a DWED policy that stipulates the conditions for writing off amounts due from customers, and requires written authorization from a CSN manager with functional responsibility separated from billing customers or collecting accounts receivable.

Management Response: Concur. The Nevada System of Higher Education System Administration Office is currently working with the Business Officer's Council regarding an update and revision of the Board of Regents policy regarding Delinquent Account Write-Off's. The Board of Regents policy regarding bad debt write-off can be found in Title 4, Chapter 17, Section 2. CSN will comply with the approved Board policy. The estimated completion date rests with the Nevada System of Higher Education (NSHE).

7. **In-Kind Accounts:** Cease contracting with DWED customers under provisions that result in trade accounts until such time as DWED responsibilities and accounting controls over trade accounts have been approved and applied by CSN management and CSN employees are trained in required responsibilities.

Management Response: Concur. The improvements in DWED's accounting operations will support recording detailed information over trade contractual arrangements. Additionally, the Dean and the Directors will become familiar with the NSHE policy and will review the in-kind transactions on a periodic basis to insure the use of the resources is within the Board of Regents requirements, which includes the development, approval, and implementation of a Trade Policy. Estimated completion

date for starting periodic reviews and completion of familiarization with Board Policies:
October 31, 2007

8. In-Kind Accounts: To the extent that documentation is available for trade account activity that was not part of officially sanctioned events, either require repayment from the employees involved or issue a 1099 income tax statement to report additional, taxable income received to include prior years.

Management Response: Concur. Coordination at the Vice President level will arrive at appropriate resolutions for the employees involved. Actions will be taken on those issues by September 28, 2007.

9. I-9 Administration: As soon as possible, provide I-9 verification training to key DWED managers and employees so that trained staff are available at all DWED office locations. Require annual refresher training of all employees who process I-9 forms.

Management Response: Concur. Training has been requested from the CSN Human Resource Department (HR) for DWED managers and staff that will provide training for verifications at each of DWED's offices. Annual refresher training will be established as a DWED standard. Estimated completion date: December 31, 2007.

10. I-9 Administration: Review all instructor employment records to identify current or past instructors who are still within three years of their date of hire, or who are still within one year of their termination date, whichever is later, and determine if their CSN employment documents comply with I-9 requirements.

Management Response: Concur. DWED in collaboration with HR will initiate a review of all instructor employment records as soon as possible. A date of December 31, 2007 has been set for completion of the review for I-9 verification problems in all records.

11. I-9 Administration: Starting immediately, for I-9 verifications that need to be re-accomplished, call instructors who are still available and ask them to return to CSN with their credentials to be re-verified. Document all attempts to contact instructors. Apply corrections and re-verifications carefully and follow DHS guidelines to show corrections as conspicuously inserted, initialed, and dated contemporaneously with their insertion.

Management Response: Concur. Starting as soon as possible, DWED in collaboration with HR will begin contacting all instructors with problematic I-9 forms with requests to return to DWED to re-accomplish employment eligibility verification. We will document such efforts. We have set the date of December 31, 2007 to have all instructors contacted and all possible corrections completed.

12. I-9 Administration: For uncorrectable I-9 certifications, place a letter in the instructor's file explaining that DWED employment eligibility processing has changed as of the date established in recommendation 13 below and that processing is compliant as of that date. This practice should help DWED present a "good faith" defense if audited.

Management Response: Concur. The date to have all records with uncorrectable I-9 verifications annotated with explanatory letters is December 31, 2007.

13. I-9 Administration: Set a date by which all I-9 corrections possible are completed by DWED and beyond which all future processing will comply with Federal requirements.

Management Response: Concur. The date for DWED to have all possible corrections applied to instructor I-9 forms and to operate in compliance is no later than December 31, 2007.

14. I-9 Administration: Separate I-9 forms from other instructor employment records and establish a system to track expiring credentials. Separate I-9 forms for actively employed instructors from those who are inactive so that identification of expiring credentials and re-verification can be more easily managed.

Management Response: Concur. DWED will separate I-9 forms from instructor employment records and maintain I-9 forms separately for active and inactive instructors. A monitoring system will be established to identify expiring credentials and limited-duration credentials for timely follow-up before they expire. Estimated completion date: December 31, 2007. These actions will be done simultaneously with actions described in responses to recommendations 10 through 12.

15. I-9 Administration: Submit a monthly report to the VP for Academic Affairs on the status of corrections until all I-9 records have either been re-verified or, for uncorrectable files, annotated to show they were prepared prior to DWED policies and procedures that mandate compliance with I-9 requirements.

Management Response: Concur. DWED will provide the VP, Academic Affairs, with a status report on September 1, 2007 and December 1, 2007 covering the I-9 records re-verification process and completion updates.

16. I-9 Administration: Establish written standards for DWED that stipulate:

A. Instructor employment contracts may be signed up to 30 days in advance of the start date and must be signed on the start date.

B. I-9 verification for start-of-work will be based on and agree with the CSN employment contract,

C. The Employment Eligibility Verification process must meet Federal requirements, and

D. Annual refresher training will be the standard for all DWED personnel involved in managing and verifying employment eligibility. See recommendation 9 above.

Management Response: Concur. The Executive Director of Human Resources (HR) and the Director of Salary Administration & Benefits will meet on or before August 31st with the Dean to discuss HR and DWED's responsibility and training plan for staff in the use of I-9 forms as well as HR's and DWED role in administration of I-9 forms. As a result of the meeting, items A through D will be implemented as formal written procedures for I-9 Administration and discussed with the responsible staff in the division. Estimated completion date: December 31, 2007.

17. Record Archives: Establish DWED accountability control over archived documents.

Management Response: Concur. Based on NSHE guidelines for retaining archived documents, DWED will review record retention standards and assign responsibility for accountability of archived documents and data storage. Estimated completion date: February 1, 2008.

EVALUATION OF MANAGEMENT RESPONSES

We believe management responses adequately address findings and recommendations in this report.


Rick Bloyer
Internal Audit / Compliance Manager
College of Southern Nevada