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Legislative Building
Carson City, Nevada

We have completed an audit of the Commission on Postsecondary Education. This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions. The results of our audit, including findings, conclusions, recommendations, and the Commission's response, are presented in this report.

We wish to express our appreciation to the management and staff of the Commission on Postsecondary Education for their assistance during the audit.

Respectfully presented,

A handwritten signature in black ink, appearing to read "Paul V. Townsend".

Paul V. Townsend, CPA
Legislative Auditor

February 23, 2005
Carson City, Nevada

STATE OF NEVADA
COMMISSION ON POSTSECONDARY EDUCATION

AUDIT REPORT

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EXECUTIVE SUMMARY

COMMISSION ON POSTSECONDARY EDUCATION

Background

The Commission is a seven-member body appointed by the Governor to set policy, adopt regulations, and grant licenses to private postsecondary institutions. Its responsibilities also include inspecting institutions, resolving student complaints, assisting students with refunds from closed schools, maintaining academic transcripts of closed schools, and issuing permits to agents who solicit students. The Commission also inspects postsecondary institutions eligible to train veterans. In fiscal year 2004, the U.S. Department of Veterans Affairs reimbursed the Commission over \$97,000 for performing this service. The remainder of the Commission's fiscal year 2004 funding was provided by a general fund appropriation of about \$242,000 and a \$3,000 transfer from the Student Indemnification Account. According to the Commission's records, it regulated 139 institutions with over 36,000 newly enrolled students in fiscal year 2004.

The Commission maintains an office in Las Vegas where it employs an administrator and three staff. In fiscal year 2004, the Commission collected over \$242,000 in fees and fines which were deposited directly to the State General Fund. During the same time, the Commission expended approximately \$342,000.

Purpose

The purpose of this audit was to evaluate the Commission's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, contractual requirements, policies, and appropriate management practices. Our audit included a review of the Commission's financial and administrative activities for the fiscal year ended June 30, 2004.

Results in Brief

The Commission plays a critical role in providing quality education to the citizens of Nevada through its regulation of postsecondary educational institutions. However, the Commission can improve its financial and administrative practices in several areas. For example, additional controls are needed to ensure student enrollment numbers are reported consistently, federal reimbursement claims are accurate, and the Student Indemnification Account is replenished timely. A good control system contributes to the effective management of an organization. By developing additional policies and procedures, the Commission can further strengthen its regulatory function.

Principal Findings

- The Commission did not have adequate controls to ensure student enrollment numbers were reported consistently. For fiscal year 2004, 14 of 15 schools we tested submitted different enrollment numbers on their quarterly and annual reports. In total, these 15 schools reported 8,250 and 7,878 students respectively on these reports—an overall difference of about 4.5%. Individual school discrepancies were generally higher, with many differences exceeding 20%. Most schools reported more students on their quarterly reports. However, some submitted more on their annual report. Although we did not find any evidence to indicate institutions were not paying their required fees, accurate data is an important component of a good regulatory process. (page 7)
- The Commission submits claims to the U.S. Department of Veterans Affairs (VA) for the reimbursement of expenses related to their monitoring of veterans educational programs. Based on claims submitted in fiscal year 2004, nine reimbursements were received from the VA totaling over \$97,000. Existing controls

EXECUTIVE SUMMARY

COMMISSION ON POSTSECONDARY EDUCATION

associated with this process did not always ensure these claims were accurate. We tested four claims, totaling about \$37,000, and noted an overall error rate of 2.2%. These errors included incorrect calculations of employee time and fringe benefit expenditures. Although the errors did not result in significant over or under billings, additional procedures should improve the accuracy of this process. (page 8)

- The Commission did not replenish the balance of the Student Indemnification Account after it fell below its statutory minimum of \$250,000. This account was established to reimburse students who have suffered financial damages resulting from a school's closure, or failure to operate according to adopted standards. Therefore, proper management of the account will help to protect future reimbursements. (page 9)

Recommendations

This audit report contains three recommendations to improve the Commission's financial and administrative practices. Specifically, the Commission should improve controls over institution reporting to ensure data submitted on quarterly and annual reports is valid and reliable; revise policies and procedures to strengthen controls over the preparation of VA reimbursement claims; and develop policies and procedures for the management of the Student Indemnification Account. (page 17)

Agency Response

The Commission, in its response to our report, accepted all 3 recommendations. (page 15)

Introduction

Background

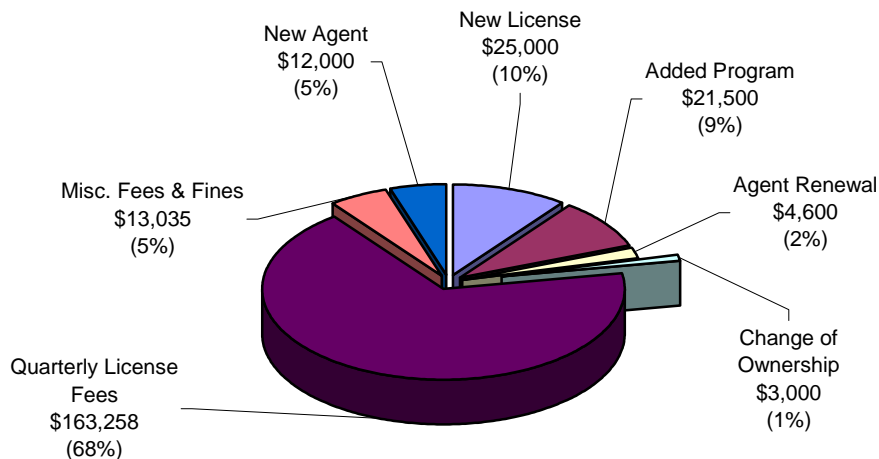
The Commission on Postsecondary Education is the predominant licensing authority for private postsecondary educational institutions operating in Nevada. This oversight function began in 1963 and was initially the responsibility of the State Board of Education. The Commission assumed this responsibility in 1975, when it was established as an independent entity reporting to the Governor. Subsequent reorganizations of state government placed the Commission within various departments. However, the Commission again became an independent entity during the 2001 Legislative Session.

The Commission is a seven-member body appointed by the Governor to set policy, adopt regulations, and grant licenses to private postsecondary institutions. Its responsibilities also include inspecting institutions, resolving student complaints, assisting students with refunds from closed schools, maintaining academic transcripts of closed schools, and issuing permits to agents who solicit students. The Commission also inspects postsecondary institutions eligible to train veterans. In fiscal year 2004, the U.S. Department of Veterans Affairs reimbursed the Commission over \$97,000 for performing this service. The remainder of the Commission's fiscal year 2004 funding was provided by a general fund appropriation of about \$242,000 and a \$3,000 transfer from the Student Indemnification Account. According to the Commission's records, it regulated 139 institutions with over 36,000 newly enrolled students in fiscal year 2004.

Throughout the fiscal year, the Commission collects fees and fines, which are deposited into the State General Fund. Fiscal year 2004 collections totaled over \$242,000. The majority of these collections came from quarterly license fees. Exhibit 1 shows fiscal year 2004 fee and fine collections by type.

Exhibit 1

Fee and Fine Collections by Type Fiscal Year 2004



Source: State Accounting System.

The Commission maintains an office in Las Vegas where it employs an administrator and three staff. Payroll expenditures comprise the majority of the Commission's operating budget. Total expenditures for fiscal year 2004 are shown in Exhibit 2.

Exhibit 2

Operating Expenditures by Category Fiscal Year 2004

Expenditure Category	Amount
Personnel Services	\$ 298,181
Out of State Travel	2,946
In State Travel	4,266
Operating	32,549
Information Services	1,317
Purchasing Assessment	61
Statewide Cost Allocation	2,335
AG Cost Allocation	183
Total	\$ 341,838

Source: State Accounting System.

Scope and Objective

This audit is part of the ongoing program of the Legislative Auditor as authorized by the Legislative Commission, and was made pursuant to the provisions of NRS 218.737 to 218.893. The Legislative Auditor conducts audits as part of the Legislature's oversight responsibility for public programs. The purpose of legislative audits is to improve state government by providing the Legislature, state officials, and Nevada citizens with independent and reliable information about the operations of state agencies, programs, activities, and functions.

This audit included a review of the Commission's financial and administrative activities for the fiscal year ended June 30, 2004. The objective of our audit was to evaluate the Commission's financial and administrative practices, including whether activities were carried out in accordance with applicable state laws, regulations, contractual requirements, policies, and appropriate management practices.

Findings and Recommendations

Existing Controls Need to Be Strengthened

The Commission plays a critical role in providing quality education to the citizens of Nevada through its regulation of postsecondary educational institutions. However, the Commission can improve its financial and administrative practices in several areas. For example, additional controls are needed to ensure student enrollment numbers are reported consistently, federal reimbursement claims are accurate, and the Student Indemnification Account is replenished timely. A good control system contributes to the effective management of an organization. By developing additional policies and procedures, the Commission can further strengthen its regulatory function.

Student Enrollment Numbers Not Consistent

The Commission did not have adequate controls to ensure student enrollment numbers were reported consistently. For fiscal year 2004, 14 of 15 schools we tested submitted different enrollment numbers on their quarterly and annual reports. In total, these 15 schools reported 8,250 and 7,878 students respectively on these reports—an overall difference of about 4.5%. Individual school discrepancies were generally higher, with many differences exceeding 20%. Most schools reported more students on their quarterly reports. However, some submitted more on their annual report. Although we did not find any evidence to indicate institutions were not paying their required fees, accurate data is an important component of a good regulatory process.

To help fund the Commission's activities, NRS 394.540(3) requires each postsecondary educational institution to collect, upon initial enrollment, a quarterly fee of \$4 from each student registered in a licensed program. These fees are payable to the Commission each quarter and are submitted along with a report which indicates the number of students enrolled in licensed programs that quarter. Institutions also submit an annual report, which is required by law. This report includes total income received from tuition and a compilation of enrollment activity.

Periodic reporting is one characteristic of a good regulatory process. However,

to ensure the integrity of any reported information, adequate controls are necessary. These controls should include:

- clear guidance on the information to be reported,
- procedures for the review and verification of the information,
- follow-up as needed on any questionable information, and
- periodic on-site reviews to verify the information.

The enrollment discrepancies we noted resulted from a lack of controls associated with the reporting process. Specifically, the Commission's policies do not clearly define which students should be included on the quarterly and annual reports. In addition, the Commission has not established comprehensive procedures for determining the validity of the reported numbers. This has resulted in inconsistent reporting methods. For example, one institution included students in both licensed and non-licensed programs on its annual report. However, only those students enrolled in licensed programs were included on the quarterly reports. Licensed programs are those leading to employment, educational credentials, college credits, or initial licensure in a profession or vocation. Other programs, such as continuing education or language courses, are not licensed by the Commission.

Without effective controls, the accuracy of reported information can be questionable. Better controls over the reporting process will help ensure that postsecondary educational institutions submit valid and reliable student enrollment numbers. Valid and reliable information will aid the Commission in the management of its regulatory responsibilities.

Federal Reimbursement Claims Contained Errors

The Commission submits claims to the U. S. Department of Veterans Affairs (VA) for the reimbursement of expenses related to their monitoring of veterans educational programs. Based on claims submitted in fiscal year 2004, nine reimbursements were received from the VA totaling over \$97,000. Existing controls associated with this process did not always ensure these claims were accurate. We tested four claims, totaling about \$37,000, and noted an overall error rate of 2.2%. These errors included incorrect calculations of employee time and fringe benefit

expenditures. Although the errors did not result in significant over or under billings, additional procedures should improve the accuracy of this process.

The VA recognizes the Commission as the approving agency for courses or programs offered to veterans by postsecondary institutions within the State. For the performance of these regulatory activities, the Commission is reimbursed for its reasonable and necessary expenses. However, these reimbursements are limited to an annual maximum by the VA contract. Reimbursements in excess of this maximum are authorized if a supplemental contract can be justified. Authorized expenditures include salaries, fringe benefits, travel, and other approved services. To obtain these reimbursements, the Commission must maintain accounting records that show, in detail, the actual costs incurred.

The Commission's lack of comprehensive policies and procedures addressing the preparation of VA reimbursement claims contributed to the noted billing errors. Although the Commission does have some written procedures, they are limited and do not adequately address specific characteristics of the claims preparation process. For example, the procedures do not provide employees proper guidance on the preparation of timesheets for work performed for the VA.

Properly accounting for the expenditures associated with the veterans program is important to ensure reimbursements are accurate. It could also result in additional reimbursements should the Commission incur expenses in excess of the maximum authorized by its VA contract. Without a well-defined process, the accuracy and completeness of these claims will not be assured.

Student Indemnification Account Not Replenished Timely

The Commission did not replenish the balance of the Student Indemnification Account after it fell below its statutory minimum of \$250,000. In November 2003, the account balance dropped to approximately \$234,000 after 13 student reimbursements were paid totaling about \$22,600. Since that date, it has remained below the statutory minimum. The Legislature established this account to reimburse students who have suffered financial damages resulting from a school's closure, or failure to operate

according to adopted standards. Therefore, proper management of the account will help protect the educational investments of Nevada's citizens.

NRS 394.557 governs the administration of fees paid to the Student Indemnification Account. Regarding this issue, the Commission's administrator is required to assess fees until the account's balance is at least \$250,000. These fees are paid quarterly and are based on the number of enrolled students. When the balance reaches \$250,000, these fees are suspended. However, they resume if it again falls below that amount.

The Commission does not have adequate controls in place to address the management of the Student Indemnification Account. Specifically, the Commission has not developed policies and procedures necessary to monitor and maintain the account's balance. As a result, the Commission did not issue fee assessments to replenish the account until September 2004. These fees will not be received until January 2005—approximately 14 months after the initial drop below the required minimum.

Recommendations

1. Improve controls over institution reporting to ensure data submitted on quarterly and annual reports is valid and reliable.
2. Revise policies and procedures to strengthen controls over the preparation of VA reimbursement claims.
3. Develop policies and procedures for the management of the Student Indemnification Account.

Appendices

Appendix A Audit Methodology

To gain an understanding of the Commission on Postsecondary Education, we interviewed agency staff and reviewed laws, regulations, policies, and procedures significant to the operation of the Commission. We also reviewed the Commission's strategic plan, prior audit reports, financial reports, budgets, and other information describing activities of the Commission. In addition, we documented key control processes and assessed their susceptibility to risk.

To accomplish our audit objective, we first obtained the Commission's list of fiscal year 2004 licensed schools. To verify the accuracy of the list, we judgmentally selected 10 schools and traced the reported information to school files. In addition, we judgmentally selected 10 school files and traced key license information to the Commission's list.

To determine if quarterly fees were properly collected, we judgmentally selected 15 licensed schools and tested their fee payments for fiscal year 2004. We initially verified the Commission notified each school that quarterly fee payments were due. In addition, we determined the submitted fees were reasonable by comparing quarterly enrollment numbers to the prior fiscal year and to the school's annual report. We also verified that each payment was mathematically accurate and based on the appropriate statutory fee. In addition, we verified each payment was recorded correctly and deposited timely. Finally, we confirmed the Commission took appropriate action for any delinquent payments.

For other school fees, we judgmentally selected 12 transactions related to new licenses, agent permits, changes of ownership, and added programs. For these transactions, we confirmed the proper statutory fee was collected and deposited timely. We also verified that revenue transactions were recorded to the proper fiscal year.

To verify reimbursements from the VA were properly claimed, we judgmentally selected four fiscal year 2004 reimbursement billings prepared by the Commission. We reviewed these billings to determine if reimbursement amounts related to hours worked, salaries, fringe benefits, and other expenses incurred by the State were accurate.

To test the Commission's compliance with expenditure requirements, we judgmentally selected payroll transactions from three pay periods and reviewed supporting timesheets for each employee. We reviewed the timesheets for evidence of managerial review and traced the reported hours to the state's accounting records to ensure they were properly recorded. We also conducted tests to ensure expenditure transactions were recorded to the proper fiscal year.

To evaluate the Commission's administration of the Student Indemnification Account, we judgmentally selected 15 fiscal year 2004 payments from this account. We reviewed supporting documentation to ensure these payments were made in accordance with applicable statutes and regulations. We also reviewed the state's accounting records to determine if this account fell below its minimum statutory balance of \$250,000 during fiscal year 2004. When this occurred, we assessed whether the Commission took required actions to replenish the account.

To determine if licensure activities were properly managed, we judgmentally selected 16 licensing transactions conducted in fiscal year 2004. Seven of these transactions were for new licenses, two represented changes in school ownership, and seven resulted from added programs. We reviewed the files for the related schools to verify the applications were processed according to applicable regulations.

Our audit work was conducted from August to October 2004, in accordance with generally accepted government auditing standards.

In accordance with NRS 218.821, we furnished a copy of our preliminary report to the Administrator of the Commission on Postsecondary Education. On February 16, 2005, we met with the Administrator to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix C, which begins on page 15.

Contributors to this report included:

Todd Peterson
Deputy Legislative Auditor

George Allbritten, CPA
Audit Supervisor

Stephen M. Wood, CPA
Chief Deputy Legislative Auditor

Appendix B

Prior Audit Recommendations

Our 1995 audit of the Commission on Postsecondary Education contained no recommendations.

Appendix C

Response From the Commission on Postsecondary Education

DAVID PERLMAN
Administrator

STATE OF NEVADA

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February 16, 2005

COMMISSION ON POSTSECONDARY EDUCATION

Paul Townsend, Legislative Auditor
Legislative Counsel Bureau/Audit Division
401 South Carson Street
Carson City, Nevada 89701

Dear Mr. Townsend:

I am in receipt of the Nevada Commission on Postsecondary Education's audit findings and am providing you with my response. The response includes updating our internal controls which are attached.

Please extend my thanks for Mr. Todd Peterson for his professionalism and helpfulness during the audit.

Sincerely,


David Perlman
Administrator

Commission on Postsecondary Education
Audit Finding Response
February 14, 2005

Finding: Annual reports do not always match the quarterly enrollment totals reported throughout the year.

Response: Annual report forms will now include the actual number of enrollments each school reported throughout the fiscal period. Instructions will require the school to make comment if there is a disparity between the number of students reported throughout the fiscal period and the number reported on the annual report. The administrator will audit at least 10 percent of the reports.

Finding: Billing claims submitted to the U.S. Department of Veterans Affairs for services rendered pursuant to the annual reimbursement contract were not always accurate.

Response: This finding resulted from both a computation error made by the administrator. A spreadsheet has been developed to ensure accuracy and the internal controls have been modified to require the administrator to check each billing claims and the basis for it more closely.

Finding: The Commission failed to replenish the tuition indemnification account when it fell below \$250,000.

Response: At the time this finding occurred, the four-person staff was short one person and the administrator was fulfilling the responsibilities of two positions. No written procedures would have prevented the finding. However, the internal controls have been modified to require the administrator to monitor the amount in the student tuition indemnification account and to assess the required fee beginning the next quarter after the amount in the fund falls below the cap.

**Commission on Postsecondary Education
Response to Audit Recommendations**

<u>Recommendation Number</u>		<u>Accepted</u>	<u>Rejected</u>
1	Improve controls over institution reporting to ensure data submitted on quarterly and annual reports is valid and reliable	<u> X </u>	<u> </u>
2	Revise policies and procedures to strengthen controls over the preparation of VA reimbursement claims	<u> X </u>	<u> </u>
3	Develop policies and procedures for the management of the Student Indemnification Account	<u> X </u>	<u> </u>
	TOTALS	<u> 3 </u>	<u> 0 </u>