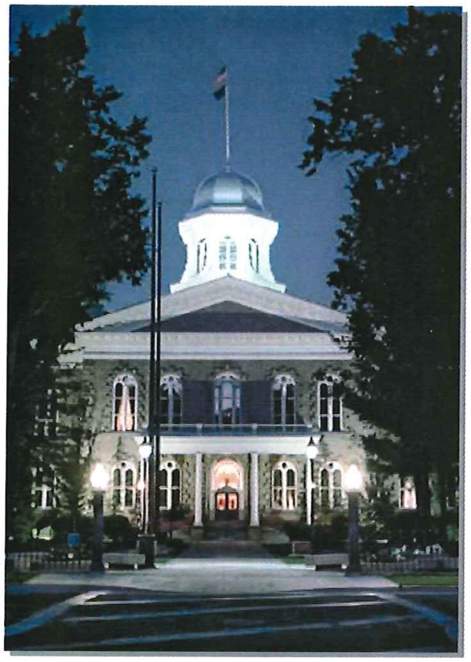

State of Nevada
Department of Administration
Division of Internal Audits

Audit Report

Department of Employment, Training, and Rehabilitation
Workforce Investment Board

Report No. 12-02
May 2012

EXECUTIVE SUMMARY
Department of Employment, Training and Rehabilitation

Objective: Can the Department improve oversight of the Workforce Investment System?

Set Expenditure Limits for Local Boards..page 10

Limiting local board expenditures will increase the amount of funds available for participants. The Department oversees the Workforce Investment System in Nevada, including monitoring two regional local boards. Funding passes from the Department to the local boards, then to providers, then to participants. The southern local board spends, proportionally, nearly twice as much funding for administration, monitoring, and other programs as the northern local board. The difference can be attributed to the southern local board's budget planning. The southern local board's budget indicates 26 percent of its funding is set aside for itself. The northern board does not set a percentage but uses historical cost adjusted for anticipated changes to expenditures. We estimate by limiting local board expenditures to the levels used by the northern board, southern participants would have had an additional $1.9 million in fiscal year 2011.

Establish Limits on Unobligated Funding......... ....page 11

The Department should evaluate how much unobligated funding is reasonable and then require the remainder to be available to providers and participants. Unobligated funds come about when providers do not expend the full contracted amounts or when the local boards do not spend all their budgets. The local boards use some of the unexpended funds to continue operations until new federal funding is allocated. While the Department believes some unobligated funding is necessary, the amount carried forward from year to year varies among the two local boards. The southern local board projects it will have about 15 percent of this year's funding unobligated at the end of fiscal year 2012. The northern local board plans to have about 10 percent. We estimate if the southern board were to reduce its unobligated funds to the level of the northern board, an additional $700,000 would be available to help participants in fiscal year 2012.

Reconcile Expenditure Records..page 12

The Department and local boards should reconcile financial records. With assistance from the Department, we attempted to determine the reliability of reported System expenditures. We found unexplained variances of about $2 million over fiscal years 2009 through 2011 for the southern board. Reconciling expenditures would ensure accurate reporting and improved financial reliability.

INTRODUCTION

At the direction of the Executive Branch Audit Committee, we conducted an audit of the Department of Employment, Training and Rehabilitation's (Department) administration of the Workforce Investment Act (Act). The Department oversees the workforce investment system (System) that implements the Act. Our audit addressed the following four questions:

- ✓ What is the System's role?
- ✓ What services must the System provide?
- ✓ Is the State the proper level of government to provide these services?
- ✓ If State government is the appropriate level of government, is the Department carrying out its duties efficiently and effectively?

Our audit focused on whether the Department could provide more funding to participants in the System.

System's Role and Public Purpose

The System's primary goal is to improve the employability of participants. The System generally classifies participants into adult programs and youth programs.

Adult Programs

Adults eligible for these programs include:

- Unemployed,
- Displaced homemakers,
- Those seeking training to retain or improve employment, and
- Self-employed who are no longer working.

The System assists eligible adults and dislocated workers[1] to enhance employability through training and employment readiness, such as computer skills, resume preparation, and interview skills. Programs also may include subsidized jobs leading to employment.

[1] Dislocated workers include individuals who have been terminated, laid off, or received notification of layoffs; self-employed who are no longer working; and unemployed homemakers.

Youth Programs

Youths eligible for these programs include:

- Youths between 14 and 21, low income, and who meet one or more criteria such as:
  - Deficient basic literacy skills,
  - School dropouts,
  - Homeless/runaway/foster children,
  - Pregnant/parents, and
  - Criminal offenders.

The System assists eligible youth to enhance their employability through achieving high school diplomas or GEDs[2], or entering post-secondary education. It also helps youth by increasing literacy and math proficiency through courses, and in basic job skills such as appropriate work place behavior and attire.

Elements of the System

The U.S. Department of Labor, the State of Nevada, local entities, and contract providers all participate in either delivering or monitoring System services to participants.

U.S. Department of Labor

The U.S. Department of Labor funds the System and monitors states and local entities for compliance with the Act. It establishes adult goals, such as the number of participants entering employment and their retention rates. It also establishes youth goals, such as completion of diploma programs and measuring increased literary skills. Additionally, the U.S. Department of Labor issues policy guidance for employment and training programs.

State of Nevada

At the state level, Nevada uses two entities, the State Workforce Investment Board (State Board) and the Department, to administer its part of the System:

- The State Board provides general oversight of the System. The Governor appoints most of its 35 members. Membership includes State officials, local elected officials, and other local and/or labor group representation. Membership also includes four legislators. Members serve on a part time basis. The majority of members are business representatives. General oversight includes approving the State Plan that is submitted to the U.S.

[2] General Educational Development degrees

Department of Labor, industry sectors to be targeted, the State strategic plan, and the Department's compliance manual.[3]

- The Department supports the State Board by conducting its day to day operations. It allocates and disburses funds to local entities, and identifies industries where employment opportunities might exist for participants. The Department develops System policies for State Board approval and monitors local entities and providers for compliance with the Act.

Local Entities

At the local level, the System uses two types of entities: Local Workforce Investment Boards (local boards) and their administrative agencies:

- The local boards provide general oversight of the System regionally and are comprised of part time members. Members are appointed by a Board of Local Elected Officials (LEOs). Members include LEOs, businessmen, educators, labor groups, community-based organizations, economic development agencies, and others. It approves a local plan[4] that is submitted to the Department for acceptance on behalf of the State Board. The local board may also select providers based on requests for proposals to deliver services and appoint the chief executive of the administrative agency.
- Administrative agencies support the local boards:
    - The southern Local Workforce Investment Board, which is non-profit, is supported by Workforce Connections which conducts the board's day to day operations. It is responsible for System activities in Clark, Nye, Esmeralda, and Lincoln Counties.
    - The northern Local Workforce Investment Board, which is quasi-governmental, is supported by Nevadaworks which conducts its day to day operations. It is responsible for System operations in the remainder of Nevada.

In addition to administrative support to the boards and other activities, these agencies issue requests for proposals for providers to perform services for participants[5]. They also develop the board budgets, and reimburse and monitor providers for fiscal and program compliance with the Act.

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[3] The State Plan is a document required by the U.S. Department of Labor that describes how the Act will be implemented in Nevada. The Strategic Plan is a document guiding workforce and economic development which promotes change. The Strategic Plan is crafted in open meetings and posted for public comment prior to submission to the Department of Labor. The compliance manual is a web-based guide providing the State Workforce Investment Act policies.

[4] The Local Plan is a document required by the U.S. Department of Labor that describes how the Act will be implemented at the local level. It is adopted in an open meeting and submitted to the Department.

[5] The Local Workforce Investment Boards select providers. Selection is made by a training proposal and bid process. Providers perform contracted training within approved budgets. Neither the boards nor the providers are employment agencies.

Contract Providers

Contract providers implement the System by training participants. Training is generally of two types, work readiness and skill enhancement:

- Work readiness training prepares participants for the work environment. The training includes resume writing, computer skill enhancement, interviewing techniques, appropriate workplace behavior, and hygiene. Work readiness is typically done in a group environment, but may be done on a personal basis.
- Skill enhancement training increases participants' proficiencies. The training includes truck driving, diesel mechanics, Certified Nursing Assistant (CNA), and classroom studies, such as fundamental business skills for word processing and spreadsheets.

The Providers also support the participants through other benefits. Providers ensure participants attend training, appointments, and continued employment by assisting with:

- Payment of rent and/or utilities,6
- Purchase of bus passes and gas cards, and
- Purchase of appropriate work attire.

Youth programs also offer incentives as an encouragement to complete programs. These incentives include paying for attending post-secondary courses.

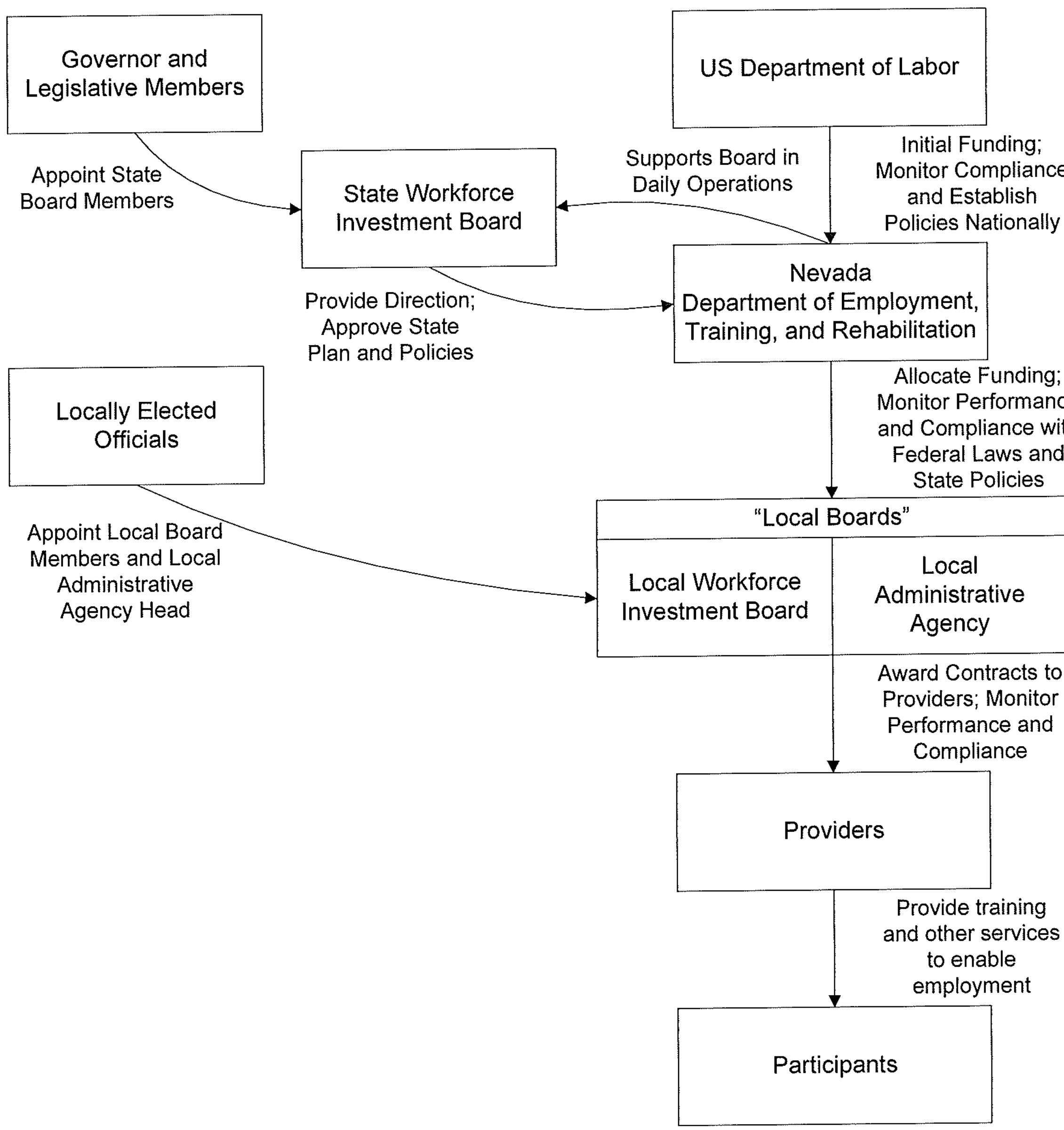
Additionally, providers track participants through training and employment.

Exhibit I on the next page illustrates the organizations and their roles in the System.

[6] Rent and utility support is typically provided once based on individual circumstances.

Exhibit I

Elements of the Workforce Investment System



In State fiscal year 2011, the System received about $29.5 million in funds that supported over 26,000 participants.

The State is the proper level of government to provide oversight of the Act requirements and disburse funds. The Act requires states to monitor and improve workforce activities and disburse funds.

Scope and Objective

We began audit work in April 2011. In the course of our audit, we reviewed budgets, expenditures, fiscal audits of the local boards, and providers. We interviewed representatives from the Department, local boards, providers, and a State Board Member. Additionally, we reviewed the Act, U.S. Department of Labor regulations, and State policies and procedures. We concluded field work and testing in February 2012.

Our audit focused on the following objective:

- ✓ Can the Department improve oversight of the Workforce Investment System?

We performed our audit in accordance with the *Standards for the Professional Practice of Internal Auditing.*

The Division of Internal Audits expresses appreciation to the management and staff of the Department, the local boards, and the providers for their cooperation and assistance throughout the audit.

Contributor to this report:

Dennis M. Stoddard, MBA
Executive Branch Auditor III

Department of Employment, Training, and Rehabilitation Response and Implementation Plan

We provided draft copies of this report to Department officials for their review and comments. The Department's comments have been considered in the preparation of this report and are included in Appendix D. In its response, the Department accepted each of the recommendations we made. Appendix E includes the Department's timetable to implement our recommendations.

NRS 353A.090 specifies within six months after the Executive Branch Audit Committee releases the final audit report, the Administrator of the Division of Internal Audits shall evaluate the steps the Department has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The Administrator shall report the six month follow-up results to the Committee and Department officials.

The following report contains our findings, conclusions, and recommendations.

Can the Department Improve Oversight of the Workforce Investment System?

The Department can improve oversight of the System by limiting how much local boards spend on their own programs and the amount of unobligated funds carried over to the next fiscal year. Using these steps, we estimate participants in the System could receive an additional $2.6 million in benefits. The Department can also improve oversight by reconciling System expenditures with the local boards.

Work Force Investment Act Spending

The Act allows the states, local boards, and providers to be reimbursed for costs. The Department, the local boards and their administrative agencies (local boards), and providers each use funding according to their role in administering the System. Funds are used for administrative costs, program monitoring, and other program expenditures.

Administrative Costs

Administrative costs are those not directly related to a provision of the System and include:

- General administrative functions such as accounting, audits, budgeting, legal, payroll, personnel, procurement, property management, and the development of systems such as information technology,
- Oversight and monitoring of administrative functions,
- Goods and services for administrative functions such as office supplies, postage, rental/maintenance of office space or equipment, and utilities, and
- Official travel for administrative activities and overall management.

The State can use up to 5 percent of funding for its administrative costs; local boards may recover 10 percent for their part. Providers receive reimbursement for some administrative costs related to implementing the Act. The Act does not limit the administrative costs for providers.

Program Monitoring Costs

Program monitoring costs are directly related to the workforce investment services, such as local boards monitoring the providers for compliance with the Act. Recipients and subrecipients can recover costs for required program monitoring. In Nevada, the State is the recipient of the federal funds, the local boards are the first subrecipient, and the providers are the second subrecipients who render services to the participants.

The Act does not limit how much local boards can recover for monitoring costs.

Other Program Expenditures

Other program expenditures include costs that are not related to administrative or program monitoring costs, such as:

- Marketing program opportunities to gain employer participation,
- Organization affiliation fees such as the Chamber of Commerce,
- Attending conferences,
- Hiring consultants, and
- Training staff.

Recipients and subrecipients recover costs for other program expenditures.

The Act does not limit how much local boards can recover for other program expenditures.

Any remaining funds after administrative, monitoring, and other program costs are available for spending on program participants.

Ensure More Funding Gets to Participants

Limiting local board expenditures and reducing the amount of unobligated funding the local boards can carry forward from year to year will increase the amount of funds available for participants.

Set Expenditure Limits for Local Boards

In Nevada, the funds used by each local board affect how much funding is ultimately available for participants. Exhibit II shows the southern board spends, proportionately, nearly twice as much funding for administration, monitoring, and other programs as the northern board.

Exhibit II

Percentage of Total Funds Used

	Southern Board Average for Fiscal Years 2009-11	Northern Board Average for Fiscal Years 2009-11
Federal Funds Available	100%	100%
Less: State Administration and Governor's Reserve[7]	9.79%	9.79%
Percentage of federal funds remaining	90.21%	90.21%
Less: Local board use of funds[8]	21.02%	11.32%
Percentage of federal funds remaining	71.25%	80.00%
Less: Provider Average Administrative Costs[9]	13.20%	11.97%
Percentage of funds available for participants	61.84%	70.24%

The difference in funding availability for participants can be attributed to the southern board's budget planning. The budget documents indicate 26 percent of its System funding is set aside for administration, program monitoring, and other

[7] The State's portion of System expenditures generally fell in two areas: Administration and Governor's Reserve. Administration expenditures support the expenses of the State Board and Department staff that develop statewide policies and procedures, monitor local boards, and the shared cost of some management and administrative staff. Administration expenditures are limited to five percent of federal funding. Governor's Reserve funds were an additional federal allocation which was available for both the State and local boards. The State primarily spent its portion of Governor's Reserve funds for a statewide network connecting businesses with employees, staff travel and audits of local boards, and partial funding for a position. The Governor's Reserve funds were limited to 10 percent of federal funding. The federal government discontinued Governor's Reserve funding for fiscal year 2012.

[8] Calculations based on financial information provided by Nevadaworks in northern Nevada, and Workforce Connections in southern Nevada.

[9] Based on available budgeted or actual provider expenditure documents for fiscal year 2011.

program spending. The northern board does not set a percentage but uses historical cost adjusted for anticipated changes to expenditures.

The Department should develop spending limitations on local boards. The Act allows state boards to set spending limits for local boards and limits local boards' expenditures on administration to 10 percent of their funding. The Act is silent regarding overall expenditures local boards can incur.

Limiting local board expenditures would free up more money for participants. We estimate by limiting local board expenditures to the levels used by the northern board, southern participants would have had an additional $1.9 million for fiscal year 2011. See Appendix A for calculations. In addition, the southern board's budget plans for Fiscal Year 2012 indicate it intends to use nearly 30 percent of its funding for administration, monitoring, and other program services. This will further reduce funds available for participants.

Once the Department proposes expenditure limits on the local boards, it will also need to determine what sanctions it may impose to ensure the local boards comply. The Department has an existing policy that provides sanctions if local boards fail to comply with program cost limitations. The sanctions include disallowing costs and seeking repayment; selecting an alternative entity to administer the program such as the State; or decertifying the local board.

Recommendations

1. Develop expenditure limits on local boards.

2. Propose expenditure limits to the State Board for approval.

3. Sanction local boards that do not comply with expenditure limitations.

Establish Limits on Unobligated Funding

The local boards have unused/unobligated funds at the end of the fiscal year. Unobligated funds come about when providers do not expend the full contracted amounts. Unobligated funds are also created when the boards do not spend all their budgets. The local boards use some of the unexpended funds to continue operations until new federal funding is allocated. In addition, the Department believes some unobligated funding during the year is necessary in case new opportunities for training arise. For example, a new employer with needs for specialized workers coming into the State.

While some unobligated funding is necessary, the amount carried forward from year to year varies among the two local boards. The southern local board projects it will have about $2.5 million in unobligated funds, or about 15 percent of this year's funding, at the end of fiscal year 2012. The northern local board plans to have about $700,000 in unobligated funds, or about 10 percent of this year's funding, at the end of fiscal year 2012.

The Department should determine how much unobligated funding is reasonable and then require the remainder to be available to providers and participants. Unobligated funds lessen benefits available to participants. We estimate if the southern board were to reduce its unobligated funds to the level of the northern board, an additional $700,000 would be available to help participants in fiscal year 2012. See Appendix B for calculations.

If the Department proposes limitations on local boards' unobligated funds, it will also need to evaluate what sanctions it may impose to ensure the local boards comply. The Department has an existing policy that provides sanctions if local boards fail to operate with a minimum cash balance (i.e. excessive cash on hand). The sanction is disapproval of reimbursement until the condition has been corrected. The sanction also calls for a temporary reassignment of administrative responsibilities to an alternate entity such as the State.

Recommendations

4. Develop unobligated funding limits on local boards.
5. Propose unobligated funding limits to the State Board for approval.
6. Sanction local boards that do not comply with unobligated funding limits.

Reconcile Expenditure Records

The Department and local boards should reconcile financial records. With assistance from the Department, we attempted to determine the reliability of reported System expenditures and found unexplained variances. Exhibit III compares each of their reported expenditures for fiscal years 2009 through 2011.

Exhibit III

Comparison of Department and Local Board Reported Expenditures for State Fiscal Years 2009-2011

	Southern Board	Northern Board
Department Reported Expenditures	$47,971,403	$22,806,926
Local Board Reported Expenditures	$49,977,246	$22,192,241
Variance	-$2,005,843	$614,685
Percentage Variance	-4.01%	2.77%

In addition, individual fiscal year variances were as much as 19 percent.

The southern board's Certified Public Accountants have also noted significant deficiencies with Act requirements. Deficiencies included cash management, cash reporting, subrecipient monitoring, allowable costs/cost principals, and internal controls.

Reconciling expenditures would ensure accurate reporting and improved financial reliability.

Recommendation

7. Reconcile Department and local board reported expenditures at least annually.

Single State Boards

The Department is interested in pursuing a "single state" model. There are two basic models for State Workforce Investment Boards. When the Act was implemented, states had a choice to have the State Boards manage the programs or to be supported by Local Workforce Investment Boards such as Nevada chose. When a state only has a State Board, it is known as a single state.

To become a single state, Nevada will have to obtain a waiver from the U.S. Department of Labor. Two states we surveyed have gone through the waiver process. In each of these states, local boards voluntarily dissolved. See Appendix C.

The Department believes that becoming a single state board will save money and will be easier to monitor. The Department anticipates saving money by eliminating the cost of the local board administration. It also anticipates that monitoring will be easier by eliminating the local boards that monitor providers.

Manage Costs

Two single state boards we surveyed provided cost information.[10] The average cost for the single state boards was about 12 percent of the total Act funding. Nevada's northern board has averaged about 11 percent to administer and monitor programs. Nevada's southern board has averaged about 21 percent and is increasing to 26 percent this fiscal year.

In order to be cost effective Nevada's single state board would have to perform as well as or better than these agencies.

Assume Additional Responsibilities

Nevada's single state board would have to assume the role of the local boards. The current system provides services through contracts between the local boards and providers. Local boards select the providers through a competitive bid process. After selection, the local boards monitor the providers' program and fiscal processes. When a provider's contract is not renewed, the board takes on the role of that provider. Local boards take on the responsibilities for continued services, training, and tracking of participant progress until another provider is willing to accept the role.

If Nevada's single state board has to take on the role of the provider, it will have to assume all responsibilities, including:

- Providing participant case managers who:
  - Perform intake and assessment ,
  - Assist with personal issues[11] , and
  - Identify and monitor training.
- Tracking participants pursuant to federal requirements:
  - During training,
  - After successful completion of training, and
  - During employment.
- Instructing participants

Nevada's single state board would have to assume other roles of the local boards, such as promoting the system. Currently, local boards use a variety of

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[10] Alaska and Delaware provided cost data.

[11] Personal issues may include social, psychological, addiction, protective (gang, child abuse, homeless, etc.), court, parole & probation, and supportive services (such as shopping for proper attire and transportation).

methods to promote the system, including liaisons in urban and rural areas with the following:

- Employers,
- Local Elected Officials,
- Community organization and event coordinators, and
- Other partners, such as the universities and community colleges.

Separate Authority

Nevada's single state board will have to both manage and monitor its programs. In 2003 Alaska obtained a waiver from the Department of Labor to become a single state board. The state assigned responsibilities to two separate divisions within the Department of Labor and Workforce Development: the Employment Security Division (ESD) and the Division of Business Partnerships. ESD manages the system. The Division of Business Partnerships monitors ESD.

The southern board has eliminated some providers and assumed their responsibilities. The U.S. Department of Labor questioned how Nevada's southern board could manage the system and monitor itself.

Nevada's single state board would need to establish two separate entities, one to administer and one to monitor the System.

Recommendations

If Nevada obtains a single state waiver it should:

8. Contain costs at or below 11 percent of the total federal funding.

9. Create policies and procedures to carry out the responsibilities currently carried out by the local boards.

10. Create separate entities to administer and monitor the program.

Appendix A

Estimated Benefit of Limiting Local Board Expenditures

Southern Board Fiscal Year 2011:	
Provider Expenditures	$14,087,734
Southern Board Expenditures (Administration, Monitoring and Other Programs)	5,243,989
Total	$19,331,723
Southern Board: Administration, Monitoring and Other Programs Average Expenditures for Fiscal Years 2009-2011 as a Percentage of All Expenditures:	21.02%
Less: Northern Board: Administration, Monitoring and Other Programs Average Expenditures for Fiscal Years 2009-2011:	11.32%
Average Difference in Expenditures for Fiscal Years 2009-2011:	9.70%
Fiscal Year 2011 Savings if Southern Board Expended Funds at the Average Rate the Northern Board Spent over Fiscal Years 2009-2011: ($19,331,723 x 9.70%)	$1,900,000[12]

[12] Rounded.

Appendix B

Estimated Benefit of Limiting Unobligated Funding

Southern Board:	
New Federal Funding for Fiscal Year 2012	$16,886,510
Budgeted Unobligated Funding at year end 2012	2,486,057
Percentage of Budgeted Unobligated Funding to New Federal Funding at year end 2012:	14.72%
Northern Board:	
Percentage of Budgeted Unobligated Funding at year end 2012	10.40%
Northern Board Percentage of Unobligated funding Applied to Southern Board's New Federal Funding for Fiscal Year 2012: (10.40% x $16,886,510)	$1,756,197
Additional Fiscal Year 2012 Freed up Funding for Participants if Southern Board Unobligated Funding is limited to the Northern Board's level of 10.40 percent: ($2,486,057 - $1,756,197)	$700,000[13]

[13] Rounded.

Appendix C

Steps to Become a Single State

We surveyed seven states suggested by the Department.[14] Of those states only two, Alaska and Idaho, went through a waiver process to become a single state.

Alaska's Waiver Process

Alaska completed the following steps:

- The state obtained a first waiver to do "Single Regional Planning" based on the efficiency of a single planning area coordinating plans, organizations, and fiscal efforts of common interests throughout the state.
- The local boards voluntarily dissolved.
- The state obtained a second waiver based on no longer having local boards.
- The state changed statutes for a new organizational structure under the Alaska Department of Labor & Workforce Development which includes:
    - Employment Security Division that provides adult and dislocated worker services, and contracts providers to provide youth services, and
    - Division of Business Partnerships that monitors the Employment Security Division.

Idaho's Waiver Process

Idaho completed the following steps:

- The state obtained a waiver to reduce its regions and boards from six regions down to two regions.
- The remaining two local boards voluntarily agreed to allow the State Board to run the system.
- The state changed statutes.
- The two local boards continue to exist in an advisory capacity.

[14] Alaska, North Dakota, South Dakota, Delaware, Idaho, New Hampshire, and Vermont.

Appendix D

Department of Employment, Rehabilitation and Training Response and Implementation Plan

BRIAN SANDOVAL
GOVERNOR

FRANK R. WOODBECK
DIRECTOR

DETR
Nevada Department of Employment, Training and Rehabilitation

OFFICE OF THE DIRECTOR

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MAR 19 2012
DIVISION OF INTERNAL AUDITS

March 19, 2012

Steve Weinberger, Interim Administrator, Internal Audits
Department of Administration, Internal Audits Section
209 E. Musser, Ste 302
Carson City, NV 89701

Subj: 2nd Response to Audit of the Local Workforce Investment Boards & DETR

Dear Mr. Weinberger,

As requested, additional information for each finding was needed, therefore, a second more detailed response was developed. This memo and related attachments provides you with the Department of Employment, Training & Rehabilitation's (DETR) written response to the Department of Administration, Internal Audits' draft audit findings of the Local Workforce Investment Boards. As stated previously, DETR management agrees with the findings as presented.

As stated previously, DETR is in the middle of considering various alternatives concerning the Local Boards, with an emphasis towards the one alternative which combines the current local board structure into one statewide Board. As a consequence, DETR's response tends to favor the finalization of this specific result (ie, one statewide board). DETR management feels that such a significant change will take time, as much as several months or even longer, but the overall benefits derived will be worth the effort. Please note that your report presentation and overall analyses were appreciated and it is anticipated that this information will prove valuable in the upcoming weeks /months.

Should you have any questions and/or need further information, please do not hesitate to call me at (702) 486-6637 or Duane Anderson, Chief Auditor at (775) 684-3903. Thank you.

Sincerely,

Dennis Perea, Deputy Director, DETR

cc: Frank Woodbeck, Director, DETR
Renee Olson, ESD Administrator, DETR
Mark Costa, CFO, DETR
Duane Anderson, Chief Auditor, DETR

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March 19, 2012

Department of Administration – Internal Audits
209 E. Musser, Su 302
Carson City, NV 89701

Addendum to Initial Response Dated March 9, 2012

Overall DETR Response

As you are aware, DETR management will be pursuing the alternative which establishes the one Statewide Board, typically referred to as a "single state" model. DETR management recognizes that Nevada will have to first obtain a waiver from the U.S. Department of Labor (U. S. DOL) prior to making such a change. DETR management has already obtained the tacit approval of the Governor and has provided initial notifications to both of the local workforce investment boards of the upcoming changes. DETR management estimates that these changes will take 1 to 2 years to implement.

DETR management believes the establishment of one Statewide Board will save money by eliminating layers of administration and provide more monies to fund direct services. The initial estimate is that the State would save from $3 to $5 million in the first year alone. This supposition is supported by other states which currently operate similar Statewide Boards. Overall, the operations of the Statewide Board will lead to greater overall efficiencies and effectiveness, at all levels.

Please note that DETR management is working on two parallel tracks, one track which develops new policies and procedures related to the "one State Board" and the other track which modifies current State Compliance Policies (for the local boards) with the intent of presenting them to the State Governor's Workforce Investment Board for approval in June 2012. Specifically, should a waiver not be obtained from the U.S. DOL (and the current 2 local board structure is maintained), the alternative plan is for DETR management to institute needed expenditure controls by implementing requirements for "hard" caps or limitations relative to Local Workforce Investment Board expenditures, specified in the State Compliance Policies. In addition, DETR will also be moving towards instituting and/or developing a financial framework and/or module for the state's One Stop Operating System as part of either the current or a newly developed statewide workforce structure. And finally, with respect to reconciling Board expenditures as reported /maintained by the Local Boards (mainly that of the Southern Local Board) and DETR, DETR management is considering re-instituting the process whereby, DETR's financial management section would take over the basic fiscal processes of the Local Boards, at least for a trial period. This will depend on the level of fiscal improvements made by the Southern Board in the next several months.

Finding 1

Recommendations: Develop expenditure limits on local boards.

DETR Response: The Department agrees with the Department of Administration – Internal Audits (NV Internal Audits) and intends to establish spending limitations on local boards, should the 2 local board structure continue. However, if a statewide, single Board structure ends up being created, controls over spending would become an integral part of the Department's spending processes and limitations as specified probably would not be needed.

Because of the tenuous nature of the ongoing negotiations and because the direction of corrective actions will change drastically depending on the final outcome, it is difficult and somewhat premature to provide implementation dates. It should be noted that the Department anticipates that final changes (whatever they end up being) should be done within 1-2 years.

Finding 2

Recommendations: Obtain approval from the State Board for the proposed expenditure limits on local boards.

DETR Response: The Department agrees with the Department of Administration – Internal Audits (NV Internal Audits) and intends to establish spending limitations on local boards and obtain approval from the State Board for such, should the 2 local board structure continue. Again, however, if a statewide, single Board structure is created, this specific corrective action will not be needed.

Finding 3

Recommendations: Sanction local boards that do not comply with expenditure limitations.

DETR Response: The Department agrees with the Department of Administration – Internal Audits (NV Internal Audits) and intends to develop /establish the necessary sanctions on local boards as consequences for failing to comply with spending limitations, should the 2 local board structure continue. Again, however, if a statewide, single

Board structure is created, this specific corrective action will not be needed.

Finding 4

Recommendations: Develop unobligated funding limits on local boards.

DETR Response: The Department agrees with the Department of Administration – Internal Audits (NV Internal Audits) and intends to develop /establish limits related to the amount of unobligated funds remaining at the end of a fiscal year, should the 2 local board structure continue. Again, however, if a statewide, single Board structure in created, this specific corrective action will not be needed.

Finding 5

Recommendations: Propose unobligated funding limits to the State Board for approval.

DETR Response: The Department agrees with the Department of Administration – Internal Audits (NV Internal Audits) and intends to develop /establish limits related to the amount of unobligated funds remaining at the end of a fiscal year and obtain approval from the State Board, should the 2 local board structure continue. Again, however, if a statewide, single Board structure in created, this specific corrective action will not be needed.

Finding 6

Recommendations: Sanction local boards that do not comply with unobligated funding limits.

DETR Response: The Department agrees with the Department of Administration – Internal Audits (NV Internal Audits) and intends to develop /establish the necessary sanctions on local boards as consequences for failing to comply with unobligated funding limitations, should the 2 local board structure continue. Again, however, if a statewide, single Board structure is created, this specific corrective action will not be needed.

Finding 7

Recommendations: Reconcile Department and local board reported expenditures at least annually.

DETR Response: The Department agrees with the Department of Administration – Internal Audits (NV Internal Audits) and intends to develop /establish the necessary controls for reconciling expenditures, should the 2 local board structure continue. Again, however, if a statewide, single Board structure is created, this specific corrective action will not be needed.

Under the current 2 local board scenario, DETR Financial Management (FM) Section receives the financial reports from the boards but would need access to more detailed accounting information, such as transaction details, etc. to perform any reconciliations. Initially, DETR management considered the possibility of taking over the basic fiscal processing of the local boards (mainly, the Southern Board) and performing this work in-house, thereby, eliminating many of the areas where accounting discrepancies can occur and increase overall accountability. However, because the Southern Board has recently hired 2 new highly trained fiscal staff, DETR will delay taking over their fiscal operations for a trial period of 6 to 9 months. If their fiscal operations do not improve sufficiently to the point where the accounts between DETR and the local board can be easily reconciled, then DETR management will begin the process to take over their fiscal operations. Please note that DETR FM would perform this additional work until the local board(s) could show their capabilities for maintaining proper control.

In the interim, DETR FM staff (along with DETR Audits) will work with the local boards and develop a method by June 30, 2012 which will allow the fiscal accounts to be reconciled in a timely manner.

Finding 8

Recommendations: Contain costs at or below 11 percent *(of)* the total federal funding.

DETR Response: Under the "single state" model, the Department agrees with the Department of Administration – Internal Audits (NV Internal Audits) and intends to maintain costs at or below the 11 percent level.

With respect to the current 2 local board structure, the Governor's Workforce Investment Board (GWIB) has the specific authority to establish spending limits relative to the local boards (such as spending caps of a certain percentage, etc.) and DETR management plans on requesting specific approval from GWIB (at an upcoming GWIB meeting) for this option before the end of the current fiscal year.

Finding 9

Recommendations: Create policies and procedures to carry out the responsibilities currently carried out by the local boards.

DETR Response: Under the "single state" model, the Department agrees with the Department of Administration – Internal Audits (NV Internal Audits) and intends to develop /establish the required policies and procedures for continuing the responsibilities currently performed by the local boards.

Finding 10

Recommendations: Create separate entities to administer and monitor the program.

DETR Response: Under the "single state" model, the Department agrees with the Department of Administration – Internal Audits (NV Internal Audits) and intends to create separate entities for administering and monitoring the program.

Appendix E

Timetable for Implementing Audit Recommendations

In consultation with the Department, the Division of Internal Audits categorized the ten recommendations contained within this report into two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). The Department should begin taking steps to implement all recommendations as soon as possible. The Department's target completion dates are incorporated from Appendix D.

Category 1: Recommendations with an anticipated implementation period of less than six months.

Recommendations	Time Frame
1. Develop expenditure limits on local boards. (page 11)	Jun 2012
2. Propose expenditure limits to the State Board for approval. (page 11)	Jun 2012
4. Develop unobligated funding limits on local boards. (page 12)	Jun 2012
5. Propose unobligated funding limits to the State Board for approval. (page 12)	Jun 2012

Category 2: Recommendations with an anticipated implementation period exceeding six months.

Recommendations	Time Frame
3. Sanction local boards that do not comply with expenditure limitations. (page 11)	Dec 2012

6. Sanction local boards that do not comply with unobligated funding limits. (page 12)	Dec 2012
7. Reconcile Department and local board reported expenditures at least annually. (page 13)	Aug 2013
8. Contain costs at or below 11 percent the total federal funding.(page 15)	Jul 2015 *
9. Create policies and procedures to carry out the responsibilities currently carried out by the local boards.(page 15)	Jul 2015 *
10. Create separate entities to administer and monitor the program.(page 15)	Jul 2015 *

* These recommendations become effective if and when the State moves to a single board model.

The Division of Internal Audits shall evaluate the action taken by the Department of Employment, Training and Rehabilitation concerning report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Committee and the Department.