

UNIVERSITY OF NEVADA, RENO
RENTAL PROPERTIES
Internal Audit Report
July 1, 2014 through October 31, 2015

GENERAL OVERVIEW

Rental Properties is one of two units that falls administratively under the Real Estate and Rental Properties Office at the University of Nevada, Reno (UNR). The Real Estate and Rental Properties Office is a function of the Business Center North (BCN) and operates under the UNR Vice President of Administration and Finance. This review was limited to the Rental Properties unit. Rental Properties is responsible for the operation and maintenance of 43 rental properties owned by the university. The rentals consist of one and two bedroom apartments, cottages and two to six bedroom single family homes which border the UNR campus. Most rental properties are leased to UNR students and faculty. During fiscal year 2014-15, the Rental Properties unit had an operating budget of approximately \$665,000 and employed one professional, three classified and two student employees.

SCOPE OF AUDIT

The Internal Audit Department has completed a review of Rental Properties at the University of Nevada, Reno for the period of July 1, 2014 through October 31, 2015.

Our review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included tests of the accounting records and other auditing procedures, as we considered necessary. The tests included, but were not necessarily limited to, these areas.

1. Reviewing the operations of the rental property office and testing controls over the rental function.

2. Reviewing a sample of rental files for completed lease agreements and other required forms, assessment of fees, and payment of rent and security deposits.
3. Testing expenditures for reasonableness, supporting documentation, and proper signature approvals.
4. Reviewing and testing controls over the daily receipt and deposit of funds.
5. Verifying equipment inventories for proper accountability.

In our opinion, we can be reasonably assured that the university's rental properties are being managed in a satisfactory manner. However, implementation of the following recommendations would further improve operations.

CASH CONTROLS

The Rental Properties Office collects rent payments, security deposits, as well as utility payments for some rental units. We examined the procedures for collecting, processing, storing and depositing payments to determine whether adequate controls are in place. We also tested a sample of 12 deposits to determine whether funds were deposited in accordance with established procedures. The following exceptions were noted.

1. There is a lack of segregation of duties in that one employee is primarily responsible for establishing tenant accounts, collecting and depositing payments received, and posting the payments to tenant accounts. We were informed that a student employee is occasionally involved in the preparation of the deposit but that this does not occur on a regular basis.

For improved control, we recommend two employees be involved each time a deposit is prepared and that both employees sign and date the deposit slip attesting to the accuracy of the deposit. We also recommend a periodic reconciliation be performed by an

independent employee between the rental payments that are collected and deposited, and those that are posted to tenant accounts and to the financial accounting system. The reconciliation should consider total rents and fees owed during the period to payments collected and deposited.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **Each deposit is completed and verified by two staff members before being taken to the Cashiers office. Additionally the Lands Division Specialist reconciles the deposit records once each quarter to ensure accuracy.**
 - How compliance and future good management and practice will be measured, monitored and assured: **Each deposit slip is initialed by the two staff members who completed and verified it, the Lands Division Specialist verifies all deposits have two sets on initials during the reconciliation. The Lands Division Specialist reviews all deposits and compares them against records of moneys owed. The Lands Division Specialist submits a report of his reconciliation to the Director of Real Estate who verifies that the reconciliation covered the appropriate items.**
 - Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Real Estate Operations Manager**
 - When the measures will be taken and on what schedule compliance and good practice will be secured: **Deposit verification has begun as of September 30, 2016. The Lands Division Specialist reconciles deposits quarterly, which began with the 1st quarter of Fiscal Year 2017 (July-September 2016)**
 - How compliance and performance will be documented for future audit, management and performance review: **All deposit slips are kept on record for future review. All reconciliations are documented and signed off by both the Lands Division Specialist and the Director of Real Estate.**
2. During our review, we noted rent payments that are collected throughout the day are placed in a small box with a combination lock to which four employees have access. At times, the receipts collected can exceed several thousand dollars.

For improved security, we recommend that the Rental Properties Office purchase a combination safe which can be securely affixed to a wall or floor and to which a limited number of employees have access.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **A combination safe has been purchased and is bolted to the floor in the closet of the Real Estate Operations Manager's office. The safe combination has only been provided to the Director of Real Estate and the Real Estate Operations Manager.**
- How compliance and future good management and practice will be measured, monitored and assured: **The Director of Real Estate and the Real Estate Operations Manager are the only employees with the combination to the safe. Should either employee leave their position the combination to the safe will immediately be changed. Should the Director of Real Estate and Real Estate Operations Manager be out of the office during the same time, the combination will be given to the Lands Division Specialist, once either returns to the office the combination will be changed.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **The Director of Real Estate**
- When the measures will be taken and on what schedule compliance and good practice will be secured: **The safe has been installed and is being utilized for all rental payments.**
- How compliance and performance will be documented for future audit, management and performance review: **The department maintains a log of when the safe combination has been changed and who it was given to.**

SOFTWARE APPLICATION

During this review, we were informed the department has implemented a new software application that is used for maintaining tenant data including rent payments and lease terms. As of the close of audit fieldwork, it was unknown whether the software was capable of producing various financial reports such as, tenant account balances, accounts receivables, revenue, and billing.

We recommend the software vendor be contacted to determine whether the application can produce reports that contain the above information that could provide assistance in monitoring tenant accounts and completing the reconciliation process.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **Reporting capabilities are being utilized for tenant balances, accounts receivable, revenue and invoicing.**
- How compliance and future good management and practice will be measured, monitored and assured: **The monthly reports are filed monthly, the Lands Division Specialist reviews them quarterly, during which time they are initialed and dated to document review.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Real Estate Operations Manager**
- When the measures will be taken and on what schedule compliance and good practice will be secured: **Reports are generated monthly beginning with October 2016.**
- How compliance and performance will be documented for future audit, management and performance review: **All reports are kept on file and are available for review.**

RENTAL FILES

We selected a sample of 11 rental files for review to determine whether the files contained a completed rental application, a signed lease agreement, and other required rental forms. We also examined payment activity documented within the files to determine whether security deposits and rent payments were made on time and late fees were assessed, if necessary. The following exceptions were noted.

1. Two lease agreements were not signed by the authorized UNR representative. One other lease agreement was not signed by the tenant.
2. On two occasions, the tenants did not initial each page of the lease agreement to acknowledge their agreement with the conditions of the lease as required.

For items one and two, we recommend greater care be taken to ensure lease agreements are signed, dated, and initialed by all parties.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **A checklist has been created to ensure that all elements of the rental contracts are included and executed completely.**

- How compliance and future good management and practice will be measured, monitored and assured: **Each checklist is signed off and verified by two employees. Twice each year the Real Estate Operations Manager will submit a list of all contracts that have been signed in the last six months, to the Lands Division Specialist who will select a random sampling of contracts and verify that the checklist was completed and the contracts are executed properly, any findings will be submitted to the Director of Real Estate.**
 - Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Real Estate Operations Manager**
 - When the measures will be taken and on what schedule compliance and good practice will be secured: **The checklist has been created, as of October 2016, and is in use for any contracts moving forward. The Lands Division Specialist reviews the checklists and contracts beginning in January 2017 and every six months thereafter.**
 - How compliance and performance will be documented for future audit, management and performance review: **All checklists and the Lands Division Specialist findings will be maintained on file.**
3. For two files reviewed, there was no indication in the rental files that the tenants paid a security deposit. We were subsequently informed that one of the deposits was waived and another was transferred when the tenants moved to a different rental unit. The transferred security deposit also resulted in a portion of the deposit being waived as the new unit had a higher deposit requirement.

We recommend that approvals of security deposit waivers, transfers, and other similar actions be documented and approved in writing and maintained in the rental file.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **A form has been created to be used any time in which a deposit has been waived or reduced. This form includes a reason for the change in deposit and is signed off by the Director of Real Estate and the Real Estate Operations Manager.**
- How compliance and future good management and practice will be measured, monitored and assured: **Twice each year the deposits will be audited by the Lands Division Specialist for the preceding six months and he/she will verify there is a completed form on file for any deposit waived or reduced.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Real Estate Operations Manager**

- When the measures will be taken and on what schedule compliance and good practice will be secured: **The form is completed and in effect as of October of 2016. The Lands Division Manager will perform an audit of the rental deposits in January 2017.**
 - How compliance and performance will be documented for future audit, management and performance review: **Waiver forms are kept on file and waived deposits are accounted for. Additionally, the Lands Division Specialist will document each audit performed.**
4. On one occasion, a security deposit was posted to the incorrect account.
 5. Five of the 11 files reviewed did not contain required rental forms such as transcript hold policy forms and safety waiver forms.

For items four and five, we recommend greater care be taken to ensure security deposits are posted to the correct account and rental forms are completed and maintained in the rental file.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **Reconciliation is conducted between the renter's account report, the deposit information and the general ledger account in the Advantage Financial System. A checklist has been created to ensure that all elements of the rental contracts are included and executed completely and accurately.**
- How compliance and future good management and practice will be measured, monitored and assured: **During the six month review by the Lands Division Specialist the reconciliation as well as the checklists are reviewed and any discrepancies will be submitted to the Director of Real Estate.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Real Estate Operations Manager**
- When the measures will be taken and on what schedule compliance and good practice will be secured: **The checklists, contracts and reconciliation will be reviewed in January 2017 and every six months thereafter.**
- How compliance and performance will be documented for future audit, management and performance review: **All checklists, contract files and reconciliations are maintained in file, the Lands Division Specialist findings will also be maintained in file.**

LEASE APPLICATION AND AGREEMENT FORMS

The rental application form used by the Rental Properties Office requests applicants to provide their social security number, which is used to perform a credit check. According to the Nevada Revised Statutes (NRS) 239B.030, a government agency shall not require personal information unless it is required to carry out a specific state or federal law, for the administration of a public program, or for an application of a federal or state grant. In addition, Title 4, Chapter 1, Section 22.7b of the Board of Regents Handbook requires institutions that request individuals to disclose their social security number to inform the individuals “whether that disclosure is mandatory or voluntary, by what authority the number is solicited, and what uses will be made of it.”

It should be noted that during our review of this matter, we were notified the major credit bureaus offer tenant screening services without the need for social security numbers.

We recommend this matter be reviewed with the UNR General Counsel’s Office to determine whether the collection of renter’s social security numbers is necessary to perform credit checks and if so, whether it is permissible under state law. If it is decided to continue to collect social security numbers, we recommend the rental application be updated to contain the notice provisions required by Board policy.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **The Real Estate office has eliminated the need for social security numbers and no longer collects them.**
- How compliance and future good management and practice will be measured, monitored and assured: **The application has been updated and no longer asks for a social security number. All previous applications have social security numbers redacted.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Real Estate Operations Manager**
- When the measures will be taken and on what schedule compliance and good practice will be secured: **As of October 2016 the rental application has been updated to not include social security numbers going forward.**

- How compliance and performance will be documented for future audit, management and performance review: **Applications are kept on file for future review.**

We also were informed the current lease agreement has not been approved by UNR General Counsel.

We recommend the lease agreement be provided to the UNR General Counsel's Office for review and approval.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **The Lease Agreement has been reviewed by UNR General Counsel and they have provided an updated Lease Agreement.**
- How compliance and future good management and practice will be measured, monitored and assured: **The Lease Agreement will be submitted for review to the General Counsel's office once each calendar year.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Real Estate Operations Manager**
- When the measures will be taken and on what schedule compliance and good practice will be secured: **As of October 4, 2016 an updated Lease Agreement has been provided for implementation, all future Lease Agreements will be drafted utilizing the updated template.**
- How compliance and performance will be documented for future audit, management and performance review: **Contracts are kept on file for future review and a revision date will appear on contracts moving forward.**

EXPENDITURES

A sample of 99 expenditure transactions incurred by the Rental Properties Office was reviewed for proper supporting documentation and approval, reasonableness, and compliance with established purchasing procedures. The following exceptions were noted.

1. On one occasion, an employee was reimbursed for a meal that was provided at a conference. According to university policy, employees should not request additional reimbursement when registration fees provide for meals.

We recommend that greater care be taken when completing and reviewing employee travel claims to ensure expenses are accurately reported. We also recommend consideration be given for seeking reimbursement from the employee.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **A checklist has been created to verify and check which meals and expenses were included with any conference fees versus those paid by the employee.**
 - How compliance and future good management and practice will be measured, monitored and assured: **All checklists are verified by a staff member other than the traveler.**
 - Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Director of Real Estate**
 - When the measures will be taken and on what schedule compliance and good practice will be secured: **As of October 2016, the checklist has been created and implemented. Additionally, the employee has reimbursed the University for the meal in question.**
 - How compliance and performance will be documented for future audit, management and performance review: **Checklists are kept on file along with all travel paperwork for future review.**
2. For one travel expenditure reviewed, a rental car contract did not reference the NSHE negotiated contract and rate. Use of the NSHE contract provides employees with preferred pricing and insurance coverage.

We recommend the NSHE contract and pricing agreement be used for rental car purchases.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **Travel claims are reviewed for compliance with policy and procedures and accuracy prior to submitting for approval and reimbursements.**
- How compliance and future good management and practice will be measured, monitored and assured: **Travel records will be reviewed for accuracy and compliance prior to submitting for payment.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Director of Real Estate**

- When the measures will be taken and on what schedule compliance and good practice will be secured: **Travel records will be reviewed for accuracy and compliance prior to submitting for payment.**
 - How compliance and performance will be documented for future audit, management and performance review: **Travel documents are kept on file for review.**
3. On one occasion, an Independent Contractor Agreement form was completed and approved after-the-fact, that is, after the effective date on the agreement and after service was rendered.

We recommend Independent Contractor Agreement forms be completed and approved prior to the date of service.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **Staff have been re-trained and provided the requirements for independent contractors.**
- How compliance and future good management and practice will be measured, monitored and assured: **Internal policy has been revised to require all work involving a financial transaction needs to be approved by the Real Estate Operations Manager to ensure that any needed Independent Contractor Agreements are completed in advance before any work is ordered.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Director of Real Estate**
- When the measures will be taken and on what schedule compliance and good practice will be secured: **As of October 2016 the staff have been re-trained on Independent Contractor requirements.**
- How compliance and performance will be documented for future audit, management and performance review: **Staff has signed documentation that they have received a copy of the University policy on Independent Contractor Agreements.**

FIRE EXTINGUISHERS

The Rental Properties Office performs maintenance and safety inspections on each rental unit every fall semester. The inspections are done to ensure heating systems are working properly and that any maintenance items or safety hazards are addressed. During this process,

the fire extinguishers are removed from each unit and delivered to the Facilities Services Department to be recharged and certified. We were informed this process usually takes at least a week and sometimes longer to complete. During this period of time, the rental units are not equipped with fire extinguishers.

We recommend a replacement set of fire extinguishers be acquired so that one exists in each rental unit at all times. If necessary, we recommend the collection and maintenance of fire extinguishers be performed in smaller groups to match the number of replacements on hand.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **There are currently 20 fire extinguishers which were recertified prior to inspections to be replaced at the same time. The Real Estate Office worked with Fire, Life and Safety to decrease the certification timeframe to enable all extinguishers to be replaced within 24 hours.**
- How compliance and future good management and practice will be measured, monitored and assured: **The Facilities Supervisor keeps a record of when each extinguisher is replaced in each rental unit.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Real Estate Operations Manager**
- When the measures will be taken and on what schedule compliance and good practice will be secured: **Inspections took place on October 5, 2016 with all extinguishers being returned on October 6, 2016.**
- How compliance and performance will be documented for future audit, management and performance review: **The Facilities Supervisor's record for fire extinguishers is kept on file for review.**

EQUIPMENT INVENTORY

We reviewed of the equipment assigned to the Rental Properties Office was performed to determine whether items listed on the equipment inventory report were physically present and accounted for. During this review we noted three vehicles listed on the report did not correctly reference the state exempt (EX) license plate numbers of the vehicles. We also noted a laptop computer is listed on the report but was replaced with another computer.

We recommend the Business Center North (BCN) Purchasing Department be contacted to update the EX license plate numbers and remove the laptop from the equipment inventory report. We also recommend the department's sensitive equipment list be updated with the new computer.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **The Real Estate Office Operations Manager will coordinate with the Purchasing Department annually to ensure all necessary information is accurate.**
- How compliance and future good management and practice will be measured, monitored and assured: **Annual checks of the inventory are kept on record.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Director of Real Estate**
- When the measures will be taken and on what schedule compliance and good practice will be secured: **As of October 2016 the Purchasing department has been contacted and the fixed assets report and sensitive equipment list have been updated. Annual checks will be performed via the Purchasing department's schedule.**
- How compliance and performance will be documented for future audit, management and performance review: **Documentation of annual check is kept on file for review.**

STATEMENT OF REVENUE AND EXPENDITURES

The statement of revenues and expenditures provided below is based on the activity of one state and six auxiliary enterprise accounts that have been assigned to the Rental Properties Office. The revenue and expenditure information was obtained from the financial accounting system.

During a review of this information, we noted one account had a small deficit balance at the conclusion of fiscal year 2014-15. The small deficit carried forward to fiscal year 2015-16. We were informed by department personnel that the account is no longer used.

We recommend a review of the account be performed and that an adjusting entry made to bring the deficit balance to zero. We also recommend the account be closed.

Institution Response

- What will be done to avoid the identified problems and issues in the future: **This account has been brought to a zero balance and closed. The open rental property accounts will be reviewed each year to determine that all are in use and needed.**
- How compliance and future good management and practice will be measured, monitored and assured: **The Real Estate Operations Manager will review all open accounts in May of each year and close any unnecessary accounts.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise: **Real Estate Operations Manager.**
- When the measures will be taken and on what schedule compliance and good practice will be secured: **As of October 2016 the account in question has been closed without a negative balance.**
- How compliance and performance will be documented for future audit, management and performance review: **Account closures are kept on file for review.**

	State Accounts	Self- Supporting Accounts	Total
Balance July 1, 2014	\$ -	\$ 395,539	\$ 395,539
Transfers-In Total	-	60,000	60,000
Revenues			
State Appropriations	142,818	-	142,818
Sales Auxiliary	-	438,195	438,195
Total Revenues	142,818	438,195	581,013
Transfers-Out Total	-	60,000	60,000
Expenditures			
Salaries	122,934	242,374	365,307
Travel	6,795	424	7,219
Operations	2,083	288,015	290,098
Total Expenditures	131,811	530,813	662,624
Balance June 30, 2015	\$ 11,007 ¹	\$ 302,921	\$ 313,928
Balance July 1, 2015	\$ -	\$ 302,921	\$ 302,921
Transfers In	-	-	-
Revenues			
State Appropriations	147,959	-	147,959
Sales Auxiliary	-	164,094	164,094
Total Revenues	147,959	164,094	312,053
Transfers Out	-	-	-
Expenditures			
Salaries	128,329.45	243,147	371,477
Travel	2,496	-	2,496
Operations	1,796	91,478	93,274
Total Expenditures	132,622	334,625	467,247
Balance October 31, 2015	\$ 15,338	\$ 132,390	\$ 147,727

1 According to the UNR Planning, Budget and Analysis Office, the surplus balance was combined and balanced with the activity in other state funded accounts.

The Internal Audit Department appreciates the cooperation and assistance received from rental office personnel during this review.

Reno, Nevada
September 27, 2016

/-----SIGNATURE ON FILE-----/

Debbie L. Ottaviano
Senior Internal Auditor

/-----SIGNATURE ON FILE-----/

Scott Anderson
Internal Audit Manager

/-----SIGNATURE ON FILE-----/

Joseph Sunbury
Chief Internal Auditor



Memorandum

To: Joseph Sunbury, NSHE Chief Internal Auditor
From: Sheri Mendez
Date: October 24, 2016
Subject: Rental Properties

The purpose of this memorandum is to transmit the audit response from the Real Estate and Rental Department to the audit of the Rental Properties for the period July 1, 2014 through October 31, 2015.

I have reviewed and concur with all responses.

cc: Marc Johnson, President
Ronald Zurek, Vice President, Administration and Finance



RENTAL PROPERTIES

AUDIT PERIOD

July 1, 2014 through October 31, 2015

NUMBER OF RECOMMENDATIONS

#	Recommendation	Implemented	Est. Date of Completion
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CASH CONTROLS

1	For improved control, we recommend two employees be involved each time a deposit is prepared and that both employees sign and date the deposit slip attesting to the accuracy of the deposit. We also recommend a periodic reconciliation be performed by an independent employee between the rental payments that are collected and deposited, and those that are posted to tenant accounts and to the financial accounting system. The reconciliation should consider total rents and fees owed during the period to payments collected and deposited.	Y	
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2	For improved security, we recommend that the Rental Properties Office purchase a combination safe which can be securely affixed to a wall or floor and to which a limited number of employees have access.	Y	
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SOFTWARE APPLICATION

3	We recommend the software vendor be contacted to determine whether the application can produce reports that contain the above information that could provide assistance in monitoring tenant accounts and	Y	
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RENTAL FILES

4	For items one and two, we recommend greater care be taken to ensure lease agreements are signed, dated, and initialed by all parties.	Y	
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5	We recommend that approvals of security deposit waivers, transfers, and other similar actions be documented and approved in writing and maintained in the rental file.	Y	
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6	For items four and five, we recommend greater care be taken to ensure security deposits are posted to the correct account and rental forms are completed and maintained in the rental file.	Y	
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LEASE APPLICATION AND AGREEMENT FORMS

7	We recommend this matter be reviewed with the UNR General Counsel's Office to determine whether the collection of renter's social security numbers is necessary to perform credit checks and if so, whether it is permissible under state law. If it is decided to continue to collect social security numbers, we recommend the rental application be updated to contain the notice provisions required by Board policy.	Y	
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8	We recommend the lease agreement be provided to the UNR General Counsel's Office for review and approval.	Y	
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EXPENDITURES

9	We recommend that greater care be taken when completing and reviewing employee travel claims to ensure expenses are accurately reported. We also recommend consideration be given for seeking	Y	
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10	We recommend the NSHE contract and pricing agreement be used for rental car purchases.	Y	
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11	We recommend Independent Contractor Agreement forms be completed and approved prior to the date of service.	Y	
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FIRE EXTINGUISHERS

12	We recommend a replacement set of fire extinguishers be acquired so that one exists in each rental unit at all times. If necessary, we recommend the collection and maintenance of fire extinguishers be performed in smaller groups to match the number of replacements on hand.	Y	
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EQUIPMENT INVENTORY

13	We recommend the Business Center North (BCN) Purchasing Department be contacted to update the EX license plate numbers and remove the laptop from the equipment inventory report. We also recommend the department's sensitive equipment list be updated with the new computer.	Y	
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STATEMENT OF REVENUE AND EXPENDITURES

14	We recommend a review of the account be performed and that an adjusting entry made to bring the deficit balance to zero. We also recommend the account be closed.	Y	
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