LA24-03

STATE OF NEVADA

Performance Audit

Nevada System of Higher Education

Self-Supporting and Reserve Accounts

2022

Legislative Auditor
Carson City, Nevada

Audit Highlights

Highlights of performance audit report on the Nevada System of Higher Education, Self-Supporting and Reserve Accounts issued on January 12, 2023.

Legislative Auditor report # LA24-03.

Background

NSHE is a state-supported land grant institution established by the Constitution of the State of Nevada in 1864. NSHE is a consolidation of eight institutions of public higher education in Nevada with an administration function.

NSHE is governed by the 13 elected member Board of Regents who are responsible for executive and administrative control of NSHE. The Chancellor is responsible for developing systemwide strategies and implementing policy.

More than 105,000 individuals utilized NSHE educational services for the Fall 2021 semester. However, student enrollment has declined overall the last 2 years.

NSHE institutions utilize self-supporting revenues to help pay for institution activities. Revenues consist mainly of student fees, investment income, indirect cost recoveries, and sales and service income. Student fees are allocated between state-supported and self-supporting accounts. At the end of fiscal year 2022, about $629 million remained in self-supporting program accounts.

Purpose of Audit

This audit was required by Assembly Bill 416 (Chapter 467, Statutes of Nevada 2021). The purpose of the audit was to analyze financial activity related to self-supporting funds and reserve accounts for fiscal years 2018 to 2021. When necessary, we included fiscal year 2022 data.

Audit Recommendations

This audit report contains 13 recommendations to ensure self-supporting funds are utilized appropriately and to improve accountability of NSHE resources.

NSHE accepted the 13 recommendations.

Recommendation Status

NSHE's 60-day plan for corrective action is due on April 10, 2023. In addition, the 6-month report on the status of audit recommendations is due on October 10, 2023.

Self-Supporting and Reserve Accounts

Nevada System of Higher Education

Summary

Minimal systemwide oversight and variations in internal control systems and operations at institutions of the Nevada System of Higher Education (NSHE) contributed to inappropriate or questionable financial activity. This occurred because the Board of Regents (Board) has provided institutions with latitude for operations, but policies and related guidelines are often vague or insufficient, which contributes to variation amongst institutions. Our review of self-supporting accounts found some inappropriate activity. For example, institutions moved expenditures to state-supported accounts without ensuring consistency in the type of activity. In addition, state funds were not reverted in accordance with state law. We also found questionable uses of student fees when compared to Board policies. Furthermore, institutions commingled restricted and unrestricted revenues, and reports to the Board did not always provide useful, accurate, or complete information. Increased oversight of institutions will help ensure funds are used appropriately and NSHE is accountable to the Legislature, its students, and the public.

Reserve and contingency accounts are not adequately overseen by the Board. As a result, there is little consistency amongst institutions in how accounts are created, structured, and used. For instance, some institutions utilized reserve accounts for routine operational expenditures such as payroll. We also found some self-supporting programs had a significant amount of idle funds relative to total uses. These programs had about $200 million in reserves at the end of fiscal year 2021. Excess reserves can indicate programs are overfunded and fees should be reduced, or funding should be redirected for more immediate purposes.

Key Findings

Institutions make a concerted effort to utilize all state appropriations before other types of funding. Accounting transactions are created near year end to ensure state appropriations are fully utilized. All NSHE institutions recorded transactions to move expenditures from self-supporting to state-supported accounts in fiscal years 2018 to 2021. Of 90 transactions reviewed, 59 were related to moving expenditures near or at year end to ensure state appropriations were fully utilized. Of these 59 transactions, 9 moved expenditures between unrelated accounts or activities and 16 moved amounts across different functional categories of expenditures. (page 10)

About $270,000 in state appropriations were not reverted and state funds were reallocated to a different institution without obtaining authorization from the Legislature. The Appropriations Act requires the return of unused state appropriations after a specified date and approval from the Interim Finance Committee for changes to the distribution of appropriations. (page 13)

We tested 250 transactions in self-supporting accounts for all institutions and found 6 (2%) in which general improvement or other restricted student fees were not used consistent with Board policy. Specifically, two institutions used a total of nearly $6.7 million in general improvement and other restricted student fees to support athletics and band programs over several years. (page 15)

Differential and technology fees funded costs for centralized services against Board policy. One institution assessed a 3.5% administrative overhead charge to self-supporting programs. From fiscal year 2018 to 2022, nearly $1.5 million in differential and technology fees were used to pay for centralized services. (page 15)

Target amounts were not set for reserve or contingency accounts, so institutions have little assurance accounts are funded properly at any given time. Additionally, limited oversight or monitoring of reserve activities occurs systemwide. Variation occurred because the Board has not established policies regarding these activities. (page 23)

We found 5 of 50 (10%) transactions tested totaling over $2 million where reserve accounts were funded from sources that included student fees. We also found institutions paid normal operating costs from reserve accounts. Ten of 50 (20%) transactions reviewed included payments for payroll, printing, computer, and office equipment purchases. Paying for normal operating costs from reserve funds does not align with best practices. (page 26)

Institutions violated Board policy by not utilizing student fees on those students who paid them. Of 189 programs reviewed, 44 (23%) retained more than 1 year of revenue in reserve for at least 3 consecutive years. On average, these programs retained about two times average annual revenues at the end of fiscal year 2021. (page 26)

STATE OF NEVADA
LEGISLATIVE COUNSEL BUREAU

CARSON CITY OFFICE
LEGISLATIVE BUILDING
401 S. CARSON STREET
CARSON CITY, NEVADA 89701
(775) 684-6800

LAS VEGAS OFFICE
GRANT SAWYER STATE OFFICE BUILDING
555 E. WASHINGTON AVENUE, SUITE 4400
LAS VEGAS, NEVADA 89101
(702) 486-2800

Legislative Commission
Legislative Building
Carson City, Nevada

This report contains the findings, conclusions, and recommendations from our performance audit of the Nevada System of Higher Education (NSHE), Self-Supporting and Reserve Accounts. This audit was required of the Legislative Auditor by Assembly Bill 416 (Chapter 467, Statutes of Nevada 2021). 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 report includes 13 recommendations to ensure self-supporting funds are utilized appropriately and to improve accountability of NSHE resources. We are available to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other state officials.

Respectfully submitted,

Daniel L. Crossman, CPA
Legislative Auditor

December 27, 2022
Carson City, Nevada

Nevada System of Higher Education Self-Supporting and Reserve Accounts

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Introduction

Background

The Nevada System of Higher Education (NSHE) is a state-supported land grant institution established by the Constitution of the State of Nevada in 1864. NSHE is a consolidation of eight institutions of public higher education in Nevada with an administration function. NSHE's mission is to provide higher education to the citizens of the State at an excellent level of quality, consistent with the state's resources.

NSHE is comprised of various institutions that provide unique educational or research benefits for Nevada's citizens.

- Universities (2) – University of Nevada, Las Vegas and the University of Nevada, Reno. Both institutions are tier 1 universities that offer baccalaureate through doctoral degrees. These institutions strive to make significant contributions to new knowledge, economic development, and the culture of the State.

- State College (1) – Nevada State College is NSHE's newest institution, established in 2002. The institution focuses on 4-year degrees that meet critical shortage areas in Nevada's workforce such as nursing and teaching.

- Community Colleges (4) – College of Southern Nevada, Truckee Meadows Community College, Great Basin College, and Western Nevada College. These institutions offer 2-year associate degrees, certificates, and select baccalaureate degrees that focus on workforce development and occupational certifications.

- Research Institute (1) – Desert Research Institute has operated for more than 60 years, focusing on environmental research and discovery.

NSHE is constitutionally governed by the Board of Regents (Board). The Board is comprised of 13 elected members who are responsible for executive and administrative control of NSHE. NSHE's chief executive officer, the Chancellor, is responsible for developing systemwide strategies and implementing Board policies.

NSHE institutions provided educational services to more than 105,000 individuals as of the Fall 2021 semester. However, the number of full-time equivalent students has declined systemwide. Exhibit 1 shows full-time equivalent students by institution for the last 5 years.

Full-Time Equivalent Student Enrollments by Institution Fall 2017 to Spring 2022 Semesters **Exhibit 1**

Institution	2017 to 2018	2018 to 2019	2019 to 2020	2020 to 2021	2021 to 2022	Percent Change
University of Nevada, Las Vegas	22,503	22,485	22,875	23,090	22,701	0.9%
University of Nevada, Reno	17,288	17,194	16,899	16,137	16,064	(7.1%)
Nevada State College	2,804	3,088	3,382	3,881	3,947	40.8%
University and College Subtotals	**42,595**	**42,767**	**43,156**	**43,108**	**42,712**	**0.3%**
College of Southern Nevada	18,138	18,493	18,846	16,754	15,960	(12.0%)
Truckee Meadows Community College	5,740	5,761	5,852	5,380	5,174	(9.9%)
Great Basin College	1,825	2,069	2,187	2,244	2,017	10.5%
Western Nevada College	2,138	1,928	2,105	1,976	2,011	(5.9%)
Community College Subtotals	**27,841**	**28,251**	**28,990**	**26,354**	**25,162**	**(9.6%)**
Total Full-Time Equivalent Students	**70,436**	**71,018**	**72,146**	**69,462**	**67,874**	**(3.6%)**

Source: NSHE Annual Average Full-Time Equivalent Enrollment report.

Note: Does not include the University of Nevada, Las Vegas Law School or Dental School nor the University of Nevada, Reno Medical School which are not funded through the regular funding formula.

System Funding and Financial Information

The Nevada State Constitution requires the Legislature appropriate funding from the State's General Fund to support NSHE activities. In addition to state appropriations, major NSHE revenues include: student tuition and fees, grants and contracts, sales and services, contributions, gifts, and investment income.

NSHE institutions track expenses by functional categories according to the National Association of College and University Business Officers. These include:

- Instruction – expenses for all activities for credit and noncredit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions.

- Research – expenses for activities specifically organized to produce research for individuals, projects, institutes, or research centers.

- Public Service – expenses primarily for activities to provide non-instructional services for the benefit of individuals external to the institution, including community service and cooperative extension programs.

- Academic Support – expenses to provide support services for instruction, research, and public service. Activities can include library, educational media, academic administration, and academic information technology services.

- Institutional Support – expenses for central, executive-level activities related to management and long-range planning for the entire institution. Activities can include executive, fiscal, administrative information technology, human resource, and development and fundraising services.

- Student Services – expenses related to admissions and activities that contribute to students' emotional and physical well-being and intellectual, cultural, and social development outside the context of formal instruction.

- Scholarships and Fellowships – expenses for scholarships and fellowships from restricted or unrestricted funds that do not require the student to perform service to the institution or repay.

- Operation and Maintenance of Plant – expenses related to administration, supervision, operation, maintenance, preservation and protection of buildings, equipment, and grounds.

- Auxiliary Enterprises – enterprise activities that furnish goods or services to students, faculty, staff, or the general public by charging a fee related to the cost of goods or services provided.

NSHE revenues continue to increase, primarily due to increased grants and contracts, even though enrollment has declined. Exhibit 2 shows condensed financial information from fiscal years 2018 to 2021.

Nevada System of Higher Education **Exhibit 2**
Revenues, Expenses, and Changes in Net Position (in $1,000's)
Fiscal Years 2018 to 2021

	2018	2019	2020	2021
Operating Revenues:				
Student Tuition and Fees	$ 431,319	$ 445,472	$ 475,552	$ 473,526
Grants and Contracts	266,061	267,367	274,479	327,281
Sales and Services	235,209	257,656	239,975	184,436
Miscellaneous	21,174	11,931	18,360	13,748
Total Operating Revenues	**$ 953,763**	**$ 982,426**	**$ 1,008,366**	**$ 998,991**
Operating Expenses (By Function):				
Instruction	$ (647,450)	$ (678,533)	$ (711,136)	$ (667,336)
Research	(133,307)	(145,601)	(143,912)	(137,791)
Public Service	(66,565)	(72,090)	(80,363)	(99,709)
Academic Support	(180,897)	(188,698)	(193,179)	(178,539)
Institutional Support	(178,244)	(184,450)	(204,201)	(208,252)
Student Services	(160,806)	(167,785)	(179,737)	(162,132)
Operating and Maintenance of Plant	(129,875)	(140,466)	(148,058)	(120,223)
Scholarships and Fellowships	(98,164)	(96,758)	(134,304)	(131,755)
Auxiliary Enterprises	(95,245)	(98,433)	(87,772)	(61,422)
Depreciation	(106,757)	(108,429)	(117,218)	(120,649)
Total Operating Expenses	**$(1,797,310)**	**$(1,881,243)**	**$(1,999,880)**	**$(1,887,808)**
Operating Income (Loss)	$ (843,547)	$ (898,817)	$ (991,514)	$ (888,817)
Non-Operating and Other:				
State Appropriations (net of reversions)	$ 705,961	$ 645,649	$ 775,797	$ 533,293
Gifts	97,119	91,000	79,355	81,775
Non-Operating Federal Grants and Contracts	124,054	125,995	164,459	262,331
Other Non-Operating(1)	32,858	29,737	52,201	172,783
Total Non-Operating and Other	**$ 959,992**	**$ 892,381**	**$ 1,071,812**	**$ 1,050,182**
Increase (Decrease) in Net Position	$ 116,445	$ (6,436)	$ 80,298	$ 161,365
Net Position-Beginning of Year	1,682,700	1,799,145	1,792,709	1,873,007
Net Position-End of Year	**$ 1,799,145**	**$ 1,792,709**	**$ 1,873,007**	**$ 2,034,372**

Source: Audited NSHE financial statements.

Notes: Numbers exclude system-related organizations, including foundations and other nonprofit organizations that are legally separate from NSHE. Fiscal year 2022 financial statements were not available for publication.

(1) Other Non-Operating includes investment income, interest expense, gains or losses on capital asset disposals, and other minor revenues and expenses.

Budgetary Process

NSHE implemented a new formula for distributing state appropriations among institutions as of July 1, 2013. The new funding formula focuses on course completions and performance to motivate institutional behavior, increase degree productivity, contribute to the State's economy, and encourage and reward entrepreneurial actions. The funding formula determines the proportion of the total state appropriation approved by the Legislature that each institution will receive for the biennium.

Institution Presidents determine funding priorities subject to the approval of the Board for both annual and biennial budgets. The Board also approves registration fees, tuition rates, and student fees. Once the Board approves budgets, oversight and monitoring of changes to approved budgets have been delegated to the Business, Finance and Facilities Committee of the Board, the Chancellor, or the President of each institution.

Self-Supporting Programs and Activities

NSHE institutions utilize self-supporting revenues to help pay for institution activities. Revenues consist mainly of student fees, investment income, indirect cost recoveries, and sales and service income. Student registration fees are allocated between state-supported and self-supporting accounts. Generally, the Board approves the proportion of registration fees distributed to self-supporting accounts and the amounts designated for specific activities which include:

- Student Access – may be expended only on financial assistance for students. Unless specifically authorized by the Board, funds may not be expended on administrative or any other activity.

- General Improvement – may be expended on goods and services that directly enhance the educational experience of the student body, including student advising, counseling, recruiting, orientation and other general student support services.

- Capital Improvement – may be expended on projects up to $100,000 approved by the institution President, or up to $1,200,000 if notice is sent to the Board. Generally, approved uses include activities related to improving or paying for projects related to campus buildings and infrastructure.

- Activities and Programs – may be expended on specific student activities and programs, including wages, operating, and equipment.

- Student Association – may be expended on the support of student government associations.

At the end of fiscal year 2022, about $629 million remained in self-supporting program accounts. Self-supporting financial information is shown in Appendix B on page 38.

NSHE accounts for activities at a program level. Each program represents a specific activity the institution has determined needs to be accounted for separately. Exhibit 3 shows the number of self-supporting programs by institution for fiscal years 2018 to 2022.

Number of Self-Supporting Programs by Institution **Exhibit 3**
Fiscal Years 2018 to 2022

Institution	2018	2019	2020	2021	2022
University of Nevada, Las Vegas	954	1,003	1,008	1,027	1,047
University of Nevada, Reno	2,814	2,918	2,860	2,786	2,800
Nevada State College	118	129	132	133	164
College of Southern Nevada	266	265	285	305	324
Truckee Meadows Community College	268	269	255	256	254
Great Basin College	221	217	214	206	211
Western Nevada College	264	265	267	176	178
Desert Research Institute	694	734	707	719	728
System Administration	103	105	114	117	102
Totals	**5,702**	**5,905**	**5,842**	**5,725**	**5,808**

Source: Auditor prepared from NSHE accounting system data.
Note: For purposes of this report, self-supporting programs exclude federal and other grants and contracts, gifts and endowments, auxiliary activities, capital projects, and state funds.

Scope and Objective

This audit was required by Assembly Bill 416 (Chapter 467, Statutes of Nevada 2021), included in Appendix A, and was conducted pursuant to the provisions of NRS 218G.010 to 218G.350. The scope of our audit focused on financial activity related to self-supporting and reserve accounts for fiscal years 2018 through 2021. When necessary and available, we included fiscal year 2022. Our audit objective was to:

- Analyze financial activity related to self-supporting funds and reserve accounts.

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.

Insufficient Oversight Contributes to Questionable Use of Funding and Errors

Minimal systemwide oversight and variations in internal control systems and operations at institutions of the Nevada System of Higher Education (NSHE) contributed to inappropriate or questionable financial activity. This occurred because the Board of Regents (Board) has provided institutions with latitude for operations, but policies and related guidelines are often vague or insufficient, which contributes to variation amongst institutions. Our review of self-supporting accounts found some inappropriate activity. For example, institutions moved expenditures to state-supported accounts without ensuring consistency in the type of activity. In addition, state funds were not reverted in accordance with state law. We also found questionable uses of student fees when compared to Board policies. Furthermore, institutions commingled restricted and unrestricted revenues, and reports to the Board did not always provide useful, accurate, or complete information. Increased oversight of institutions will help ensure funds are used appropriately and NSHE is accountable to the Legislature, its students, and the public.

Institutions Move Expenditures to Utilize State Funds

Significant financial transactions at or near each fiscal year end moved expenditures between state-supported and self-supporting accounts to utilize all state funding. This has resulted in minimal reversions of state funding to the State's General Fund for many fiscal years. Additionally, since few controls exist over these transactions, expenditures did not always align with the appropriate category. This distorts financial and budgetary information that is supposed to reflect where funding is spent and on what activities. Over time, NSHE has requested and received more authority from the Legislature to determine the specific uses of state funding. At the same time, the Board of Regents has provided institutions with latitude to determine funding priorities and develop appropriate internal controls.

Few Board Policies Exist Regarding Movement of Expenses

Institutions make a concerted effort to utilize all state appropriations before other types of funding. Accounting transactions are created near year end to ensure state appropriations are fully utilized. Board policy does allow institutions to transfer expenditures between state-supported and self-supporting accounts prior to May 1, but policies do not provide guidance regarding the nature and appropriateness of these transfers. Few restrictions regarding how funding should be utilized and fewer requirements to seek approval for, or provide information regarding changes in planned spending, have resulted in an average of less than 0.2% of state funding being reverted annually to the state since at least 2011. Exhibit 4 shows reversions from 2018 to 2022.

Appropriations and Reversions of State Funding **Exhibit 4**
Fiscal Years 2018 to 2022

	2018	2019	2020	2021	2022
Total State Appropriations	$605,905,112	$619,874,560	$684,807,608	$557,029,638	$639,590,776
Total Reversions	$ 908,077	$ 309,332	$ 3,729,543	$ 539,726	$ 888,776
Percent Reverted to the General Fund	**0.15%**	**0.05%**	**0.54%**	**0.10%**	**0.14%**

Source: State accounting system.

Reversions to the state have declined because institutions can revise approved budgets and also initiate accounting transactions that move expenditures between accounts each fiscal year with limited Board or Legislative approval. Budgetary changes are only required to be reported as an informational item to the Board for transfer amounts exceeding $500,000 and when crossing functional expense categories.

More Autonomy Provided to NSHE to Determine Funding Priorities

NSHE has been required to provide more information and seek approval for changes to planned uses of state funding in previous years. Prior to 1991, the entire NSHE budget was included in the Governor's Executive Budget and was broken out in detail as to what NSHE could utilize state funds for. This detailed budget was thus subject to legislative scrutiny through the budget review process. Subsequently, state appropriations were provided in a lump sum allocation. As NSHE was provided more flexibility, reversions declined. In 1992 and 1993, NSHE reverted between 3% and 8% of state appropriations. After 1993, reversions declined significantly, to less than 1% of amounts appropriated.

A legal opinion from the Legislative Counsel Bureau Legal Counsel, received for a previous audit by the Legislative Auditor in 1996 (LA96-33), discussed the limitations the Legislature has on monitoring the activities of the higher education system. The legal opinion concluded the Legislature cannot impose requirements on NSHE that are not imposed statewide and may not encroach on the powers of the Board. Per the Nevada Constitution, management and control of system activities are the sole responsibility of the Board of Regents. Additionally, Nevada Revised Statutes 396.380 provides that the Board of Regents shall control the expenditures of money appropriated for the support of the System and all money from any other source.

While NSHE has been provided more flexibility over time, the Legislature has not always approved additional proposals for less oversight. During the 2011 Session, proposed legislation would have provided further flexibility by allowing NSHE to retain all unused state appropriations. An account from unspent appropriations would be maintained by NSHE to utilize in economic downturns. The proposed legislation did not pass out of the Assembly.

Policy Consideration for the Legislature

Agencies receiving state appropriations must follow various requirements so that modifications to legislatively-approved spending plans can be monitored. Moreover, most agencies do not have other funding sources that can be retained and offset against state appropriations. NSHE’s flexibility to determine budgetary priorities does not necessarily equate to an approval by the Legislature to utilize state funds by any available means. Since the Appropriations Act requires NSHE to revert unused state appropriations, we believe the Legislature expects NSHE to follow the Board-approved state appropriation spending plan and revert amounts not used in accordance with the approved plan. The Legislature may wish to consider whether NSHE's actions to move expenditures from self-supporting accounts at or near year end, and use all state funds first, meets with legislative intent when allocating General Fund dollars.

Utilizing State Appropriations First Resulted in Misaligned Expenditures

All NSHE institutions recorded transactions to move expenditures from self-supporting to state-supported accounts in fiscal years 2018 to 2021. Of 90 transactions reviewed, 59 were related to moving expenditures near or at year end to ensure state appropriations were fully utilized. Furthermore, of these 59 transactions, 9 moved expenditures between unrelated accounts or activities and 16 moved amounts across different functional categories of expenditures.

Moving expenditures in this manner distorts budgetary and financial information especially when activities are not related or only loosely aligned. For example, about $200,000 in payroll-related costs were transferred from a program associated with research to a program associated with institutional support. In addition, several institutions transferred ongoing information technology purchases to various programs including distance education, the University Press, and the library. Based on a review of these expenditures, it was not clear how these technology purchases related to the programs that costs were transferred to. Moreover, these transfers only occurred for 1 year, not several years as would be expected with recurring technology subscriptions if expenditures related directly to the programs that costs were transferred to.

The National Association of College and University Business Officers' Financial Accounting and Reporting Manual states expenses related to more than one function should be assigned by direct identification whenever possible to one functional category. Therefore, once an expenditure is determined to apply to one functional category, it should remain with the category the expenditure is best aligned with. Additionally, Board policy specifies state operating funds must be utilized to the greatest extent possible in support of student credit-based instruction. Approval for non-instructional purposes should be only under the most unusual conditions.

We found similar transactions occurred in our 1996 report of NSHE (LA96-33). Without adequate guidance, oversight, and monitoring of these transactions, funds may not be spent on legislative and Board priorities, and the potential for misuse of state funds is increased. While funding may have been used for valid, instruction-related purposes, without effective controls to review these transactions, the Board, the Legislature, and other stakeholders have less assurance that public money is used for the intended purpose.

Some Activities Bypass State Law

About $270,000 in state appropriations were not reverted when payments were made from state-supported accounts for a centralized service. Additionally, state funds were reallocated to a different institution without obtaining authorization from the Legislature. The Appropriations Act requires the return of unused state appropriations after a specified date and approval from the Interim Finance Committee for changes to the distribution of appropriations.

State Appropriations Not Reverted

NSHE manages some centralized services or costs by accounting for expenses in one program, but then distributing those costs to other centers that utilize the service. NSHE calls this activity a recharge. Recharge activities are primarily accounted for in self-supporting accounts. The costs related to these accounts can be distributed to other types of funds, such as state or auxiliary. Expenses are reallocated within the institution or among other NSHE institutions if the service is shared.

While we did not test these transactions or accounts specifically, through other testing we identified a recharge account primarily funded with state appropriations where a balance was retained for multiple years. More than $2 million in state funds supported the recharge account we reviewed from fiscal years 2019 to 2022. However, recoveries from other programs exceeded actual expenditures and the account retained more than $270,000 at the end of fiscal year 2022. Using state funds to offset centralized services in self-supporting accounts does not change the nature of the funds, nor the requirement to revert unused amounts in accordance with the Appropriations Act. Recharges are common for NSHE and state funds are used to support many centralized or common activities.

Redirection of Legislatively Approved Allocations Needs Interim Finance Committee Approval

Two NSHE institutions paid for cost assessments to support System Administration with state funds while other institutions used self-supporting funds. In total, more than $2.4 million in state funds were reallocated to System Administration during fiscal years 2018 to 2021 without Interim Finance Committee approval.

System Administration receives more than $4 million in state appropriations each fiscal year. However, all NSHE institutions are assessed an additional amount by System Administration that is supposed to be funded by self-supporting sources. The Appropriations Act requires approval from the Interim Finance Committee, upon recommendation from the Governor, for any redistribution of legislatively-approved allocations. However, approval was not obtained for these reallocations.

Institutions have autonomy in developing internal control systems and broad authority to initiate and approve financial transactions. Additionally, minimal systemwide monitoring of individual institution activity occurs. As a result, noncompliance can occur and go undetected.

Questionable Use of Certain Student Fees

Student fees are not always utilized as specified by Board policy. For example, institutions used general improvement fees to fund activities that may not align with policy. Additionally, differential and technology fees funded centralized services and other institutional initiatives which do not directly relate to the fees' purposes. Since Board policy is not clear and monitoring of individual institution activities is insufficient, institutions have interpreted Board policy regarding use of student fees broadly.

Student Fees Not Directly Enhancing Education for Students Who Pay Them

Board policies detail specific uses for student fees. General improvement fees paid by students are required to be expended on goods and services that directly enhance the educational experience of the student body, including, but not limited to student advising, counseling, recruiting, orientation, and other student support services. This includes expending funds on salaries and wages, operating costs, equipment, and library materials that benefit the general student body.

We tested 250 transactions in self-supporting accounts for all institutions and found 6 (2%) in which general improvement or other restricted student fees were not used consistent with Board policy. Specifically, two institutions used a total of nearly $6.7 million in general improvement fees or other restricted student fees to support athletics and band programs over several years.

Institution staff indicated general improvement fees can support athletic and band programs since these programs enhance the college experience and increase student affiliation with the institution. However, policy indicates fees should be used for student support services such as advising and counseling available to the entire student body, which does not seem to align with the institution's interpretation, especially since a small percentage of students participate in athletics or band programs. Our concerns regarding using general improvement fees for athletics and band include that funds may not be used for educational purposes and only benefit a very small number of students compared to the student body at large. Regardless, Board policy should be clarified to specifically identify acceptable and unacceptable uses of student fees, so ambiguity is removed and accountability is improved.

Differential and Technology Fees Used Inappropriately

Programs charging a differential fee such as nursing, physical and occupational therapy, architecture, business, engineering, and social work funded costs for centralized services against Board policy. One institution assessed a 3.5% administrative overhead charge to self-supporting programs.

Board policy states differential and certain technology fees paid by students should be used for services and goods that directly relate to or support, the program for which the fee is associated. In addition, guidance also indicates that a differential fee can be established to address the high cost or high demand of a particular program. During fiscal years 2018 to 2022, nearly $1.5 million in differential and technology fees were used to pay for centralized services at this institution.

The administrative overhead assessment account also pays for other costs described as institutional priorities. Based on our review, institutional priorities are items not easily attributable to a specific cost center and include, but are not limited to: staff enrichment awards, athletics, consultants, and management training. During fiscal years 2018 to 2022, over $7 million was spent on institutional priorities.

Additionally, the institution's policy indicates special student fees such as lab fees or course-specific fees are not to be used to fund the administrative overhead assessment account. Since Board policy indicates that differential fees take the place of lab or special course fees, using differential fees to fund the account does not appear to be consistent with Board or institution policy. Additionally, Board policy is clear that differential fees should directly support the high cost or volume of the program.

Moreover, the account had more than $10 million in reserves during the audit period indicating funding from revenues other than student fees is adequate to fund the program. Using a portion of the differential and technology fees to fund unrelated activities does not appear to be an appropriate use under Board policies.

The institution was able to use some student fees for questionable purposes for two reasons. First, institutions have significant autonomy to develop and maintain internal control systems related to fiscal operations. Additionally, NSHE has few systemwide controls to monitor individual institution fiscal activity.

The Board has an obligation to set student fees at rates appropriate to meet institution needs. Institutions have a responsibility to utilize fees for the purposes for which the fee is approved and intended. Using fees for purposes other than those approved indicates the fee may be set at a higher rate than is necessary to support the program and should be reduced accordingly.

Commingling of Revenues Creates Difficulties in Determining Whether Restricted Funds Are Appropriately Used

Many self-supporting accounts commingle restricted and unrestricted revenues. In some cases, both revenue types may fund the same program, but restricted revenues have limitations on use. Commingling makes it difficult to determine whether more restricted revenues are expended appropriately or what proportion remains of each revenue type at year end. This practice occurred since NSHE does not have policies or guidance regarding commingling revenue types.

During our testing of student fee transactions, we identified many programs that commingled restricted and unrestricted revenues. While the individual transactions tested appeared appropriate for the most restricted fee use, commingling makes it difficult to determine whether the most restricted funds were spent appropriately overall. This is true since institutions do not identify the specific revenue source for each expenditure.

Commingled Student Fees Complicates Policy Compliance and Reporting

As noted later in this report on page 26, programs funded by student fees retained excessive funding from 1 year to the next. The Board's policy is that student fees be used for services related to those students who pay the fee. We found 18 of 44 programs with student fees exceeding 1 year of revenue for more than 3 consecutive years included commingled revenues. When student fees are commingled with other revenue sources there is no way to determine what portion of the balance remaining at year end is related to student fees. As a result, we could not determine whether programs violated Board policy by not utilizing student fees in a timely manner.

Programs with excess student fees and other revenues averaged $5.8 million in revenue from 2018 to 2021; however, fiscal year 2021 ending balances exceeded $9.4 million, almost double the balance allowed by policy. Moreover, commingling student fees complicates determining whether amounts should be reported to the Board. To ensure adequate oversight of student fee use and compliance with policy, institutions should report detailed information, including whether student fees are commingled with other revenues, for accounts with high balances.

Inaccurate and Incomplete Reporting Hinders Proper Oversight

Reports to the Board were not always accurate or complete. Specifically, reports to monitor if institutions utilized student fees timely lacked sufficient detail to adequately monitor this issue. Furthermore, end-of-year budgetary reports for self-supporting accounts contained errors and could not be fully reconciled to NSHE's accounting system. Finally, required accounting exceptions were not reported by institutions. Reporting is inaccurate and inconsistent between institutions because compliance with Board policy is dependent upon institutions. Minimal systemwide monitoring of institution reporting occurs.

Reports to Monitor Student Fee Use Are Ineffective

As noted later in this report, self-supporting programs retained more fees than allowed by Board policy. The Board requires each institution to report the amount of student fees remaining unexpended each year. However, reports provided information for each fee overall without the detail needed to monitor individual programs or specific student fee reserves. Exhibit 5 provides an example of the information reported to the Board.

Example of an Institution's Reporting to the Board For Monitoring Student Fee Balances Fiscal Year 2021 **Exhibit 5**

	Beginning Balance	Actual Revenue	Actual Expenditures	Actual End of Year Balance	Ending Balance	% of Annual Revenue
Capital Improvement Fee	$ 1,480,690.26	$ 1,344,102.95	$ 912,009.13	$ 432,093.82	$ 1,912,784.08	142%
Differential Fees	$ 116,957.54	$ 228,957.50	$ 216,035.93	$ 12,921.57	$ 129,879.11	57%
Excess Credit Fee	$ 71,558.30	$ 204,245.95	$ 217,579.11	$ (13,333.16)	$ 58,225.14	29%
General Improvement Fee	$ 467,777.82	$ 1,009,406.80	$ 719,660.12	$ 289,746.68	$ 757,524.50	75%
Other Student Fees	$ 1,084,199.46	$ 2,646,494.27	$ 2,322,204.23	$ 324,290.04	$ 1,408,489.50	53%
Special Course / Lab Fees	$ 817,561.22	$ 975,589.72	$ 689,341.98	$ 286,247.74	$ 1,103,808.96	113%
Student Access Fee	$ 906,840.57	$ 1,580,262.08	$ 1,433,660.86	$ 146,601.22	$ 1,053,441.79	67%
TOTAL REVENUE	$ 4,945,585.17	$ 7,989,059.27	$ 6,510,491.36	$ 1,478,567.91	$ 6,424,153.08	80%

Source: Board of Regents meeting information. Reports are prepared by institutions and submitted to the Board by System Administration.

Note: This is an example of one institution's reporting of student fees. This report has not been modified other than to format it for our report purposes. All institutions reported on the same template. We did not select this institution over another for any particular purpose other than to provide an illustrative reference for the reader.

While the above report does not reflect a high ending balance for Other Student Fees, we found one program at this institution retained more than 1.5 years' worth of student fee revenue at the end of fiscal year 2021. Because reports provide general information and include other sources of funding, individual, program-specific accounts may not receive adequate scrutiny when warranted. Overall, our analysis of student fee programs found 44 of 189 tested (23%) carried more than 1 year of student fee revenues for 3 consecutive years from 2018 to 2021. Without detailed and accurate information, the Board would not know which programs or fees might be too high and need adjustment.

Institutions Report Differently

We also found inaccuracies and inconsistencies made by institutions in reports submitted to the Board. For example, some amounts were not included in reports, and institutions reported differently. Specifically, some institutions included activities and program fees separately, while others combined them in the other student fee category. Furthermore, we found actual revenue includes more than student fees. Based on our review of the institutions' information, reported revenue also includes transfers. Including activity not related to student fees does not provide an accurate representation of the fee activity the Board is attempting to monitor.

Even though reported information is reviewed at the institutional level, there is no oversight process in place to confirm the accuracy of information reported by each institution. Additionally, institutions interpreted Board policy differently, which indicates the policy and related guidance were not clear or detailed enough to ensure consistent reporting.

Reporting unnecessary and inaccurate information, without sufficient detail, diminishes the report's effectiveness as an oversight mechanism and does not provide the Board appropriate information to ensure student fees are utilized as intended. Additionally, the Board does not receive adequate information to evaluate if student fees are set at appropriate amounts.

Budgetary Reports Not Accurate

We reviewed the budget to actual reports related to self-supporting accounts for fiscal years 2020 and 2021 and found various errors. Errors included clerical errors, listing items multiple times, and inconsistent inclusion and omission of funds and programs. In addition, inaccuracies made it difficult to reconcile reported information back to NSHE's accounting system. System Administration and institution personnel were unable to determine why certain amounts did not reconcile.

Though we were able to identify most of the variances on published reports, differences remained. For instance, unreconciled amounts for fiscal year 2021 amounted to $256,000 in sources and $111,000 in uses. Budget to actual reports are lengthy, detailed, and compiled for each institution from NSHE's accounting system. It is unlikely reports will be error free; however, additional controls can be established to ensure reports are as accurate as possible.

Some Transactions Not Reported to the Board

Our review of transactions moving expenditures between state-supported and self-supporting accounts found two instances where expenditures were transferred to a state account after May 1. These transactions are required to be reported to the Board, but neither transaction was reported. Institutions are solely responsible for reporting complete and accurate information to the Board.

Board policies require institutions provide information on transactions moving expenditures to state accounts after May 1. When activity is not reported it is difficult for governing oversight bodies to accurately understand activities occurring at institutions and make appropriate decisions. Additionally, transparency regarding governmental activities is diminished.

Institutions provide a multitude of reports to the Board. Our review was limited to individual reports related to issues we identified during our audit where reporting to the Board was required.

Recommendations

1. Develop policies over the transfer of expenditures between state-supported and self-supporting accounts at any time of the year. The Board should determine whether transactions that modify approved spending by crossing expense categories are acceptable, or if additional monitoring and oversight are warranted.
2. Develop systemwide monitoring controls over transfers between state-supported and self-supporting accounts to ensure policies are followed.
3. Implement controls, including monitoring activities, that would prevent or detect inappropriate financial activity to ensure compliance with state funding requirements and applicable laws.
4. Revise Board policies regarding student fees to clarify Board intentions regarding acceptable and unacceptable uses of each student fee, including eliminating ambiguity and adding definitions where necessary.
5. Develop Board policies over commingled revenue sources to ensure restricted funds are separated from other sources of revenue or spending of restricted revenues is tracked to ensure funds are used for intended purposes.

6. Revise Board policies adding clarification over student fee reporting to request appropriate detail, adequately oversee institution operations, and ensure compliance with policy intent.
7. Develop controls over reporting systemwide and at the institutions to ensure accuracy, completeness, and consistency.
8. Revise student fee reporting templates and provide written instructions to ensure institutions report consistent and accurate information.

Reserves Not Adequately Managed

Reserve and contingency accounts are not adequately overseen by the Board. As a result, there is little consistency amongst institutions in how accounts are created, structured, and used. For instance, some institutions utilized reserve accounts for routine operational expenditures such as payroll. We also found some self-supporting programs had a significant amount of idle funds relative to total uses. These programs had about $200 million in reserves at the end of fiscal year 2021. Although maintaining some reserves is prudent, idle funds can indicate programs are overfunded and fees should be reduced, or funding should be redirected for more immediate purposes.

Reserves Lack Structure From Minimal Policy

The use of reserve and contingency accounts varied widely among institutions. Some institutions established multiple reserve accounts and others had one. Generally, target amounts were not set for reserve or contingency accounts so institutions have little assurance accounts are appropriately funded at any given time. Additionally, limited oversight or monitoring of reserve activities occurs systemwide. Variation occurred because the Board has not established policies regarding these activities.

Targets for Reserve Balances Not Established
Institutions provided information to us regarding established reserve accounts as no formal structure exists to identify and monitor these accounts systemwide. Exhibit 6 shows the total number of reserve accounts and related activity for fiscal years 2018 to 2021.

Reserve Accounts and Related Fiscal Activity Fiscal Years 2018 to 2021

Exhibit 6

Institution	Reserve Accounts	Revenues	Transfers-In	Expenditures	Transfers-Out	Fiscal Year 2021 Ending Balance
University of Nevada, Las Vegas	19	$5,806,334	$11,626,914	$ 223,743	$25,115,202	$26,473,590
University of Nevada, Reno	7	1,047,196	22,026,893	658,725	22,960,790	6,170,129
Nevada State College	4	-	869,681	5,317	700,177	316,238
College of Southern Nevada	4	428,140	2,937,955	-	(257,491)	12,503,232
Truckee Meadows Community College	1	250,590	21,083,816	11,809	12,497,138	14,425,532
Great Basin College	3	191,461	902,830	614,701	138,599	2,488,621
Western Nevada College	1	32	1,796,789	-	95,000	2,158,165
Desert Research Institute	12	156,606	4,447,636	197,731	5,255,771	5,350,828
System Administration	3	$1,783,474	$ -	$1,369,469	$ 425,236	$ 1,959,935

Source: Auditor compiled from NSHE accounting system data and discussions with NSHE personnel.

Note: Institutions provided these as official reserve or contingency accounts. No process existed for us to identify or confirm these were the only reserve or contingency accounts in use during our audit period.

Institutions established reserves for operating, capital projects, maintenance, and other needs; but, only one institution developed a policy regarding how funds should be approved and utilized. Additionally, few institutions identified or established targeted reserve levels.

Board policy addresses one contingency reserve account for System Administration indicating a target of 30% of the prior year's annual income should be established for shortfalls in revenue or unbudgeted expenditures. However, Board policies do not address sufficient reserve levels at institutions or provide guidance for establishing reasonable limits on balances.

Best practices indicate reserve policies should identify the purpose of the reserve and its intended use, and establish a target balance to be maintained. In addition, policies should identify the appropriate authority for establishing, utilizing, reporting, and monitoring reserve funds.

Without a target amount for reserves, amounts may be insufficient to pay for obligations when cash flow is disrupted. Conversely, reserve balances may be excessive, causing funds to remain idle, which could indicate a need to reassess related revenue streams.

Contingency Reserves Not Defined in Policy

While Board policy states the contingency reserve for System Administration is to be used for unanticipated shortfalls in revenue or unbudgeted expenditures, no policy exists for any other self-defined reserve or contingency account at institutions. Guidance suggests reserves differ from contingencies and appropriate policy should be developed over both types of activities.

The National Association of College and University Business Officers states that reserves should be established and utilized for the following purposes:

- Program Expansion;
- Facilities Maintenance;
- Technology Infrastructure Replacement; and
- Self-Insurance.

Additionally, guidance suggests that contingency reserves should target unanticipated revenue shortfalls, expense overruns, or other budgetary impacts. Since these types of reserves differ in use, policies should adequately address both. Furthermore, projections will not always be 100% accurate, and therefore, year-end review and monitoring is necessary to ensure reserve balances are appropriately maintained.

Some Sources and Uses of Reserves May Not Be Appropriate

While most reserve accounts were funded with unrestricted revenue sources, we found some were funded with student fees. Even though this may be an acceptable use of certain student fees, the Board has not defined what types of revenues should fund reserve accounts. In addition, about 20% of expenditures tested from reserve accounts were for normal institutional operations that would be more prudently spent from funds not designated as reserves.

Student Fees Funding Reserves

For the most part, institutions funded reserves from investment income, indirect cost recoveries, or other unrestricted revenues. However, we found 5 of 50 (10%) transactions tested totaling over $2 million where reserve accounts were funded from sources that included student fees. Student fees are generally considered to be restricted resources as Board policy specifies how each fee may be used.

Per Board policy, most student fees may not be carried forward more than 1 fiscal year, but exceptions exist. Fees related to activities that are considered “self-supporting” are exempt from other Board policies regarding student fees. However, the Board has not defined the term “self-supporting”, and we found confusion exists among institutions. Because Board policy is not clear, we could not determine if utilizing these student fees to fund reserve accounts was appropriate.

Operating Costs Paid From Reserves

We also found institutions paid normal operating costs from reserve accounts. Ten of 50 (20%) transactions reviewed included payments for payroll, printing, computer, and office equipment. Paying for normal operating costs from reserve funds does not align with best practices. Additionally, normal operating costs should be included in the budgetary review and approval process. Based on our review, all 10 transactions could have been anticipated and should have gone through the normal budgeting process.

Reserve accounts were not always utilized in accordance with best practices because institutions are responsible for developing internal control systems and systemwide oversight and guidance is minimal. Transparency and accountability are reduced without detailed and clear Board policy to guide institution operations.

Student Fees Not Utilized Timely

Institutions violated Board policy by not utilizing student fees on those students who paid them. Of 189 programs reviewed, 44 (23%) retained more than 1 year of revenue in reserve for at least 3 consecutive years. On average, these programs retained about two times average annual revenues at the end of fiscal year 2021.

The total amount of reserves at the end of fiscal year 2021 for programs funded entirely or partially by student fees was about $20.7 million. Institutions carried excessive balances because Board policy is vague and reports provided to the Board lack sufficient detail to adequately monitor compliance with policy.

Students Not Always Benefiting From Fees Paid

Board policy states that fees collected from students should be utilized for the direct benefit of the students from whom they are collected. Additionally, policy states fees that remain unexpended as of June 30 of each fiscal year in which they are collected may be carried forward for up to 1 fiscal year. However, institutions did not always utilize student fees in a timely manner as 23% of the 189 programs reviewed carried forward more than 1 year of average student fee revenue for at least 3 consecutive fiscal years. Exhibit 7 shows programs retaining a high percentage of student fees at the end of fiscal year 2021.

Programs With the Highest Ending Balance of Student Fees From Select Programs Tested As of June 30, 2021 **Exhibit 7**

Institutions	Average Student Fee Revenue 2018 to 2021	Fiscal Year 2021 Ending Balance	Years of Revenue Retained
University of Nevada, Reno – Program 1	3,591	53,241	15
University of Nevada, Las Vegas – Program 1	19,000	144,668	8
University of Nevada, Las Vegas – Program 2	699,478	2,943,844	4
College of Southern Nevada – Program 1	166,741	492,359	3
University of Nevada, Las Vegas – Program 3	117,117	333,567	3
Western Nevada College – Program 1	11,337	30,621	3
Nevada State College – Program 1	57,744	134,268	2
Western Nevada College – Program 2	39,133	86,819	2
University of Nevada, Las Vegas – Program 4	$ 76,577	$ 158,990	2

Source: Auditor derived from NSHE accounting system data.

Note: Institutions account for activities down to an individual program number. The amounts noted above represent an individual program, not necessarily the entirety of a student fee. A student fee can be distributed among several programs.

Holding student fees in reserve for 2 years or more violates Board policy and suggests there may be an opportunity to reduce fees. The Board requires institutions to report student fees and related ending balances to the Board annually. However, Board policy does not specify the level of detail at which student fees should be monitored and reported. Discussions with NSHE personnel indicated most fiscal personnel understood that student fees should be monitored at the program level, but report templates prepared by System Administration requested information generally by student fee type. This lack of detail prevents the Board from conducting a thorough review of student fees.

Board Policy Needed to Ensure Other Funds Are Used Timely

Other self-supporting programs funded with investment income, sales and service, and other operating revenues also retained significant funds over the 4-year period. Of 999 programs reviewed, 147 (15%) carried balances that exceeded 75% of annual uses (expenses and transfers-out). These 147 programs retained about $179.4 million in funds at the end of fiscal year 2021. While the Board does not have a policy regarding self-supporting programs that do not have student fees, allowing funds to remain idle is not an efficient use of resources and may indicate funds should be reallocated or charges reduced. Establishing policies related to these programs can ensure funds are used appropriately and charges are not excessive.

Self-Supporting Programs Accumulated Informal Reserves

Our review of self-supporting programs found some retained balances almost equal to a year's worth of total uses. The average ending balances for these programs at each institution in fiscal years 2018 to 2021 is shown in Exhibit 8.

Non-Student Fee Programs With High Ending Balances **Exhibit 8**

Institution	Number of Programs	Cumulative(1) Average Ending Balance
University of Nevada, Las Vegas	34	$68,904,365
University of Nevada, Reno	67	28,547,295
Nevada State College	2	507,215
College of Southern Nevada	10	7,675,529
Truckee Meadows Community College	3	13,679,144
Great Basin College	5	4,665,405
Western Nevada College	1	344,951
Desert Research Institute	22	3,989,884
System Administration	3	$ 5,481,736

Source: Auditor analysis based on NSHE accounting system data.
(1) The average was calculated for fiscal years 2018 through 2021.

In certain circumstances, retaining a high balance in the program from 1 year to the next may be appropriate. Our discussions with NSHE personnel indicated some institutions maintain at least 3 months' worth of expenditures as a reserve, especially if programs support payroll costs. Self-supporting programs can vary from supporting normal instructional and institutional operations to accounting for rental properties and royalties received, as well as other overarching institution activities and priorities.

Some institutions indicated balances are consistently monitored and spending plans required when significant funds accumulate. However, little systemwide monitoring of self-supporting program balances exists, and the Board has not developed policies over non-student fee self-supporting programs.

Recommendations

9. Create Board policies over reserve and contingency accounts, including the account's purpose, development of target balances, appropriate funding sources and uses, appropriate approval levels, and monitoring and reporting requirements. Policy should define the difference between reserve and contingency accounts and the appropriate funding, uses, and approvals for each.

10. Develop systemwide monitoring controls over reserve and contingency accounts to ensure policies are followed.
11. Revise Board policies to define "self-supporting" programs so Board intent is clear.
12. Evaluate student fee funded and other self-supporting programs that contain a high balance and determine whether fees should be reduced, or funds redirected accordingly.
13. Develop Board policies regarding the carrying, monitoring, and reporting of non-student fee funded self-supporting programs with high balances.

Pandemic-Related Budget Reductions Offset by Investment Strategies

The structure, monitoring, and control practices NSHE used for its investment operating fund were reasonable. As a result, NSHE was able to offset mandated budget reductions with investment distributions. Increases in amounts invested over time, combined with the income derived from these funds, allowed NSHE to cover a significant portion of the reduction in state appropriations due to the pandemic. Moreover, the special distributions from the operating fund were accurately allotted to the various NSHE institutions based on cash balances.

Reserves and Investment Gains Offset Budget Cuts

Established reserves and gains on investments were sufficient to offset most of NSHE's mandatory budget reductions related to state-supported accounts as a result of the pandemic. COVID-19's negative effects on the economy led to mandatory budget reductions approved by the Legislature of over $164 million, a 4% reduction in state funds allocated to NSHE for fiscal year 2020 and 19.6% for 2021.

As required, institutions made budget cuts to comply with reductions in state appropriations. However, System Administration proposed using the market fluctuation account and investment earnings to offset these reductions. The Board approved two special distributions from the investment account in the amount of $50 million and $79 million in June and August of 2020, respectively. Exhibit 9 shows budget reductions and the related investment distributions.

State Budget Reductions Compared to Investment Distributions Fiscal Years 2020 and 2021 **Exhibit 9**

	Fiscal Year 2020 State Budget Reductions	Fiscal Year 2021 State Budget Reductions	Sum of Budget Reductions	First Investment Special Distribution	Second Investment Special Distribution	Sum of Investment Distributions	Distributions Less Budget Reductions
University of Nevada, Las Vegas	$10,014,656	$ 50,524,159	$ 60,538,815	$26,148,907	$39,321,827	$ 65,470,734	$ 4,931,919
University of Nevada, Reno	7,970,166	41,936,109	49,906,275	10,944,509	13,999,346	24,943,855	(24,962,420)
Nevada State College	857,877	4,269,131	5,127,008	1,135,641	1,311,272	2,446,913	(2,680,095)
College of Southern Nevada	4,306,709	20,330,030	24,636,739	4,965,808	7,340,673	12,306,481	(12,330,258)
Truckee Meadows Community College	1,504,800	7,477,295	8,982,095	1,957,867	3,169,875	5,127,742	(3,854,353)
Great Basin College	549,230	2,746,805	3,296,035	734,416	787,077	1,521,493	(1,774,542)
Western Nevada College	606,633	2,931,720	3,538,353	746,508	731,799	1,478,307	(2,060,046)
Desert Research Institute	324,988	1,703,484	2,028,472	1,957,839	3,297,081	5,254,920	3,226,448
System Administration	947,675	4,577,490	5,525,165	1,047,736	1,499,534	2,547,270	(2,977,895)
Totals	**$27,082,734**	**$136,496,223**	**$163,578,957**	**$49,639,231**	**$71,458,484**	**$121,097,715**	**$(42,481,242)**

Source: NSHE information submitted to the Board and investment documentation.

Special distributions were based on each institution’s average daily cash balance in the operating pool, which adheres to the methodology used for regular monthly investment income distributions. The distributions for two institutions were sufficient to offset the reduction in state funds leaving a surplus for other uses at those institutions.

Special Distributions Authorized Before Most Federal Relief Funds Were Available

Special distributions occurred prior to the arrival of the majority of federal relief dollars. Although the Coronavirus Aid, Relief, and Economic Security Act (CARES) was authorized in March 2020, the majority of federal relief funds were authorized after the investment distributions. Exhibit 10 shows the timing of each funding infusion.

Funding to Offset Pandemic Losses **Exhibit 10**
Calendar Years 2020 and 2021

Title	Type of Relief	Date Authorized	Amount
Coronavirus Aid, Relief, and Economic Security Act	Federal	March 27, 2020	$ 63,104,784
Investment Income Distribution	NSHE	June 12, 2020	49,639,231
Investment Income Distribution	NSHE	August 21, 2020	71,458,484
Coronavirus Response and Relief Supplemental Appropriations Act	Federal	December 27, 2020	112,009,146
American Rescue Plan	Federal	March 11, 2021	$197,205,143

Source: NSHE investment and other documentation and the FFIS.org website.

Special Distributions Remain Unspent

While special investment distributions covered budget reductions for two institutions, all others had to reduce state accounts further to reach state-mandated cuts. However, the influx of federal funds later in fiscal year 2021 offset budgetary reductions and other fiscal hardships caused by the pandemic, for the most part. As a result, some institutions did not fully utilize all proceeds from the special investment distributions. About $70 million in special distribution investment funds remained unspent as of the end of fiscal year 2022.

Our discussions regarding unspent investment funding indicated most institutions intend to hold the funding in reserve accounts for future use. Others indicated funds would likely be needed in future years due to declining enrollment, deferred maintenance, or to purchase real property. Since the Board did not place restrictions on the use of these funds, institutions can determine the most appropriate use of unused amounts.

Investment Structure Allowed for Flexibility

The structure of NSHE's investment operating fund and the monitoring and control of the fund were reasonable. As of June 2022, NSHE's operating investment pool amounted to about $736 million. The Board has modified its investment strategies over time. In 2010, in response to the 2008 economic recession, the Board created a market fluctuation account to preserve income distributions in times when one normally would not be made. This account amounted to about 40% of the special distributions.

Distribution of Investment Earnings

Investment strategies for the operating pool are suggested by a third-party advisor. System Administration monitors the investment strategies and determines and calculates distributions based on Board policy. The investment operating fund is a pool of cash not immediately needed to fund institution operations. Every institution contributes to the pool and monthly distributions of the fund's income are calculated based on the proportion of that institution's average daily cash contribution. Exhibit 11 shows the average daily cash balance for each institution for June 2022.

Institution Proportion of the Operating Pool **Exhibit 11**
Average Daily Balance
June 2022

Institution	Balance	Percent
University of Nevada, Las Vegas	$429,114,865	49.2%
University of Nevada, Reno	221,970,679	25.5%
Nevada State College	23,269,293	2.7%
College of Southern Nevada	83,328,495	9.6%
Truckee Meadows Community College	48,285,086	5.5%
Great Basin College	6,936,558	0.8%
Western Nevada College	10,159,224	1.2%
Desert Research Institute	38,795,598	4.4%
System Administration	9,352,000	1.1%
Total	**$871,211,798**	**100.0%**

Source: Auditor compiled from NSHE documentation.

In addition, the operating pool generally carries a reserve and a market fluctuation account which are undistributed earnings on the operating pool. Board policy provides for investment earning distributions. Additional distributions are made if the reserve is more than 8% of the total operating fund value for 3 months. Investment income distributions are halted if the reserve falls below 3% for 3 consecutive months.

In 2010, the Board approved $50 million to be moved from the operating reserve to a money market fluctuation account to sustain income distributions during extended periods where the operating reserve falls below 3% and a distribution would not generally be made. NSHE utilized the entirety of the market fluctuation account for the first special distribution. Exhibit 12 shows the operating pool and reserve account balances at fiscal year end from 2018 to 2022.

Operating Pool and Reserve Account Balances **Exhibit 12**
June 30, 2018 to 2022

	2018	2019	2020	2021	2022
Investment Operating Pool	$797,777,393	$717,816,801	$724,771,842	$833,630,473	$735,797,001
Reserve Account	$ 58,061,099	$ 52,205,793	$ 59,317,547	$ 96,682,304	$ (28,941,893)

Source: Auditor compiled from NSHE investment documentation.

Appendix A

Assembly Bill 416, Chapter 467 From the 2021 Legislative Session

Assembly Bill No. 416–Committee on Education

CHAPTER..........

AN ACT relating to higher education; requiring the Legislative Auditor to conduct an audit of the Nevada System of Higher Education; making an appropriation; and providing other matters properly relating thereto.

Legislative Counsel's Digest:
This bill requires the Legislative Auditor to conduct a performance audit during the 2021-2023 biennium of the Nevada System of Higher Education for the Fiscal Years 2018-2019 to 2021-2022. This bill sets forth the requirements for the audit and makes an appropriation to the Legislative Fund for overtime and travel costs related to conducting the audit.

EXPLANATION – Matter in ***bolded italics*** is new; matter between brackets ~~[omitted material]~~ is material to be omitted.

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

Section 1. 1. The Legislative Auditor shall conduct a performance audit during the 2021-2023 biennium of the Nevada System of Higher Education, including, without limitation, any related foundations, institutions or agencies, for the Fiscal Years 2018-2019 to 2021-2022 and any additional fiscal years the Legislative Auditor deems necessary to audit. The audit must include, without limitation, an examination and analysis of:

(a) The sources and uses of money privately donated to each school within the System and the System, including, without limitation, adherence to the terms and agreements of the donations;

(b) Capital projects at the University of Nevada, Reno, and the University of Nevada, Las Vegas; and

(c) The reserve accounts and self-supporting budget accounts in the System.

2. On or before February 4, 2023, the Legislative Auditor shall present a final written report of the audit performed pursuant to this section to the Audit Subcommittee of the Legislative Commission.

3. The provisions of NRS 218G.010 to 218G.350, inclusive, apply to the audit performed pursuant to this section.

4. Every officer and employee of a school within the System or the System, including any related foundations, institutions or agencies, shall cooperate fully with and provide such information as is required by the Legislative Auditor to assist with the completion of the audit.

Appendix A

Assembly Bill 416, Chapter 467 From the 2021 Legislative Session (cont.)

– 2 –

5. As used in this section, "System" means the Nevada System of Higher Education.

Sec. 1.5. There is hereby appropriated from the State General Fund to the Legislative Fund created by NRS 218A.150 for overtime and travel costs related to conducting the audit required by section 1 of this act the following sums:

For the Fiscal Year 2021-2022 .... $80,250
For the Fiscal Year 2022-2023 .... $128,750

Sec. 2. Notwithstanding the provisions of NRS 218D.430 and 218D.435, a committee, other than the Assembly Standing Committee on Ways and Means and the Senate Standing Committee on Finance, may vote on this act before the expiration of the period prescribed for the return of a fiscal note in NRS 218D.475. This section applies retroactively from and after March 22, 2021.

Sec. 3. This act becomes effective on July 1, 2021.

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81st Session (2021)

Source: Nevada Legislature.

Appendix B

Self-Supporting Funds by Institution
Fiscal Years 2018 to 2022

University of Nevada, Las Vegas	2018	2019[1]	2020	2021	2022[1]	Increase (Decrease) 2018–2022
Beginning Balance	**$206,066,681**	**$179,337,402**	**$161,923,729**	**$151,006,201**	**$197,915,370**	
Sources:						
Student Fee Revenues	$108,922,426	$113,380,475	$121,093,790	$132,081,856	$135,863,396	25%
Sales and Services Revenues	79,605,085	90,002,477	80,551,590	89,887,613	96,917,628	22%
Investment Income[4]	651,183	650,361	757,965	681,544	698,048	7%
Other Revenues[2]	23,368,668	17,225,995	18,633,911	26,322,534	25,810,953	10%
Transfers-In	49,129,804	76,174,344	73,439,023	90,041,986	71,675,116	46%
Total Sources	**$261,677,166**	**$297,433,652**	**$294,476,279**	**$339,015,533**	**$330,965,141**	**26%**
Uses:						
Personnel Expenses	$116,036,248	$127,070,898	$133,896,739	$137,576,080	$132,263,099	14%
Operating Expenses[2]	94,105,339	90,448,333	84,356,812	91,208,679	92,015,836	(2%)
Non-Operating Expenses[3]	967,482	209,719	30,686	-	1,709	(100%)
Transfers-Out	75,073,456	97,118,375	87,109,570	63,214,161	64,559,124	(14%)
Total Uses	**$286,182,525**	**$314,847,325**	**$305,393,807**	**$291,998,920**	**$288,839,768**	**1%**
Ending Balance	**$181,561,322**	**$161,923,729**	**$151,006,201**	**$198,022,814**	**$240,040,743**	**32%**

University of Nevada, Reno	2018	2019[1]	2020	2021	2022[1]	Increase (Decrease) 2018–2022
Beginning Balance	**$ 45,806,749**	**$ 55,398,646**	**$ 50,716,549**	**$ 92,923,990**	**$148,159,433**	
Sources:						
Student Fee Revenues	$ 59,943,168	$ 66,089,773	$ 70,442,968	$ 69,161,406	$ 70,714,695	18%
Sales and Services Revenues	55,603,950	63,802,400	71,385,636	65,046,240	82,304,538	48%
Investment Income[4]	2,207,286	1,898,944	2,925,291	28,882,884	13,009,004	489%
Other Revenues[2]	37,193,750	45,354,724	129,536,598	91,421,884	77,314,838	108%
Transfers-In	87,135,289	117,149,579	88,689,980	117,494,132	139,686,497	60%
Total Sources	**$242,083,443**	**$294,295,420**	**$362,980,473**	**$372,006,546**	**$383,029,572**	**58%**
Uses:						
Personnel Expenses`	$ 83,598,790	$ 82,789,706	$ 92,424,030	$ 98,870,636	$ 89,699,506	7%
Operating Expenses[2]	71,030,363	72,464,098	72,030,384	65,690,615	74,109,866	4%
Non-Operating Expenses[3]	836,153	362,218	161,156	6,559,510	117,186	(86%)
Transfers-Out	91,987,225	143,361,495	156,157,462	164,211,256	189,097,288	106%
Total Uses	**$247,452,531**	**$298,977,517**	**$320,773,032**	**$335,332,017**	**$353,023,846**	**43%**
Ending Balance	**$ 40,437,661**	**$ 50,716,549**	**$ 92,923,990**	**$129,598,519**	**$178,165,159**	**341%**

Appendix B

Self-Supporting Funds by Institution
Fiscal Years 2018 to 2022 (continued)

Nevada State College	2018	2019[1]	2020	2021	2022[1]	Increase (Decrease) 2018–2022
Beginning Balance	**$ 8,562,762**	**$ 9,819,456**	**$ 8,270,675**	**$ 7,866,667**	**$ 17,410,673**	
Sources:						
Student Fee Revenues	$ 8,777,738	$ 9,541,245	$ 9,796,676	$ 10,983,931	$ 11,321,957	29%
Sales and Services Revenues	60,759	30	36	-	35,099	(42%)
Investment Income[4]	1,692,918	775,853	311,124	2,764,192	1,178,586	(30%)
Other Revenues[2]	291,299	674,956	410,341	7,374,980	1,839,547	531%
Transfers-In	5,030,409	5,955,921	5,791,907	6,297,201	4,969,771	(1%)
Total Sources	**$ 15,853,123**	**$ 16,948,005**	**$ 16,310,084**	**$ 27,420,304**	**$ 19,344,960**	**22%**
Uses:						
Personnel Expenses	$ 3,644,004	$ 4,699,738	$ 4,322,532	$ 5,403,591	$ 4,626,325	27%
Operating Expenses[2]	4,060,285	5,047,931	5,251,588	5,527,218	5,535,218	36%
Non-Operating Expenses[3]	-	-	176,277	320,504	320,504	0%
Transfers-Out	6,311,131	8,749,117	6,963,695	6,628,774	6,760,869	7%
Total Uses	**$ 14,015,420**	**$ 18,496,786**	**$ 16,714,092**	**$ 17,880,087**	**$ 17,242,916**	**23%**
Ending Balance	**$ 10,400,465**	**$ 8,270,675**	**$ 7,866,667**	**$ 17,406,884**	**$ 19,512,717**	**88%**

College of Southern Nevada	2018	2019[1]	2020	2021	2022[1]	Increase (Decrease) 2018–2022
Beginning Balance	**$ 48,090,901**	**$ 53,707,135**	**$ 53,770,840**	**$ 60,539,483**	**$ 70,635,719**	
Sources:						
Student Fee Revenues	$ 26,516,811	$ 29,056,059	$ 31,177,464	$ 29,176,451	$ 28,335,295	7%
Sales and Services Revenues	3,645,120	3,367,706	2,713,068	1,911,165	2,981,791	(18%)
Investment Income[4]	6,313,591	3,975,551	1,902,633	14,526,195	4,945,575	(22%)
Other Revenues[2]	1,014,581	1,243,357	1,146,751	3,009,445	31,392,523	2,994%
Transfers-In	17,819,988	20,144,357	21,925,821	23,595,282	33,280,569	87%
Total Sources	**$ 55,310,091**	**$ 57,787,030**	**$ 58,865,737**	**$ 72,218,538**	**$100,935,753**	**82%**
Uses:						
Personnel Expenses	$ 12,698,966	$ 12,220,796	$ 12,498,151	$ 11,332,583	$ 14,662,662	15%
Operating Expenses[2]	15,303,008	14,096,328	13,555,286	23,277,760	20,540,893	34%
Non-Operating Expenses[3]	170,931	6,173,797	3,389,844	4,252,005	4,412,463	2,481%
Transfers-Out	24,011,664	25,232,404	22,653,813	23,218,592	33,056,578	38%
Total Uses	**$ 52,184,569**	**$ 57,723,325**	**$ 52,097,094**	**$ 62,080,940**	**$ 72,672,596**	**39%**
Ending Balance	**$ 51,216,423**	**$ 53,770,840**	**$ 60,539,483**	**$ 70,677,081**	**$ 98,898,876**	**93%**

Appendix B

Self-Supporting Funds by Institution
Fiscal Years 2018 to 2022 (continued)

Truckee Meadows Community College	2018	2019[1]	2020	2021	2022[1]	Increase (Decrease) 2018–2022
Beginning Balance	**$ 27,008,432**	**$ 22,089,432**	**$ 21,959,625**	**$ 21,058,202**	**$ 35,442,869**	
Sources:						
Student Fee Revenues	$ 8,418,114	$ 9,516,891	$ 9,157,108	$ 8,739,745	$ 8,403,579	(0.2%)
Sales and Services Revenues	778,505	878,581	579,380	690,292	777,392	(0.1%)
Investment Income[4]	580,533	721,982	772,761	5,979,953	2,643,996	355%
Other Revenues[2]	1,443,954	1,433,673	997,772	11,043,418	3,253,337	125%
Transfers-In	9,140,024	12,032,088	8,624,927	25,507,893	9,815,782	7%
Total Sources	**$ 20,361,130**	**$ 24,583,215**	**$ 20,131,948**	**$ 51,961,301**	**$ 24,894,086**	**22%**
Uses:						
Personnel Expenses	$ 5,804,335	$ 6,474,222	$ 5,150,196	$ 7,759,270	$ 3,323,978	(43%)
Operating Expenses[2]	5,275,237	4,138,384	6,200,836	5,344,365	5,059,411	(4%)
Non-Operating Expenses[3]	-	148	-	-	-	0%
Transfers-Out	12,602,076	14,100,268	9,682,339	24,481,531	16,057,266	27%
Total Uses	**$ 23,681,648**	**$ 24,713,022**	**$ 21,033,371**	**$ 37,585,166**	**$ 24,440,655**	**3%**
Ending Balance	**$ 23,687,914**	**$ 21,959,625**	**$ 21,058,202**	**$ 35,434,337**	**$ 35,896,300**	**52%**

Great Basin College	2018	2019[1]	2020	2021	2022	Increase (Decrease) 2018–2022
Beginning Balance	**$ 8,228,725**	**$ 8,428,158**	**$ 8,816,911**	**$ 7,758,573**	**$ 9,124,980**	
Sources:						
Student Fee Revenues	$ 2,724,345	$ 3,296,694	$ 3,235,647	$ 3,426,389	$ 3,325,475	22%
Sales and Services Revenues	385,549	223,550	148,909	106,702	130,405	(66%)
Investment Income[4]	1,170,800	591,905	225,091	1,739,550	504,257	(57%)
Other Revenues[2]	949,818	1,174,100	1,074,830	1,557,837	1,170,534	23%
Transfers-In	971,667	1,576,366	1,521,243	1,215,193	1,327,114	37%
Total Sources	**$ 6,202,179**	**$ 6,862,615**	**$ 6,205,720**	**$ 8,045,671**	**$ 6,457,785**	**4%**
Uses:						
Personnel Expenses	$ 1,546,019	$ 1,332,302	$ 2,393,944	$ 2,344,055	$ 1,129,107	(27%)
Operating Expenses[2]	2,996,745	3,789,119	3,640,599	3,067,249	3,396,975	13%
Non-Operating Expenses[3]	11,678	-	91,601	2,183	-	(100%)
Transfers-Out	743,004	1,352,441	1,137,914	1,265,777	963,870	30%
Total Uses	**$ 5,297,446**	**$ 6,473,862**	**$ 7,264,058**	**$ 6,679,264**	**$ 5,489,952**	**4%**
Ending Balance	**$ 9,133,458**	**$ 8,816,911**	**$ 7,758,573**	**$ 9,124,980**	**$ 10,092,813**	**11%**

Appendix B

Self-Supporting Funds by Institution
Fiscal Years 2018 to 2022 (continued)

Western Nevada College	2018	2019[1]	2020	2021	2022[1]	Increase (Decrease) 2018–2022
Beginning Balance	**$ 8,071,427**	**$ 7,713,129**	**$ 7,364,661**	**$ 6,919,044**	**$ 10,093,448**	
Sources:						
Student Fee Revenues	$ 2,337,948	$ 2,272,145	$ 2,569,634	$ 2,599,334	$ 3,065,207	31%
Sales and Services Revenues	444,148	489,748	243,003	66,104	176,866	(60%)
Investment Income[4]	1,140,437	549,122	140,410	1,621,445	502,987	(56%)
Other Revenues[2]	755,747	1,176,429	854,377	2,578,795	1,261,675	67%
Transfers-In	4,232,305	2,000,489	1,667,495	3,905,271	582,651	(86%)
Total Sources	**$ 8,910,585**	**$ 6,487,933**	**$ 5,474,919**	**$ 10,770,949**	**$ 5,589,386**	**(37%)**
Uses:						
Personnel Expenses	$ 1,940,945	$ 2,061,432	$ 1,687,078	$ 1,867,893	$ 1,101,066	(43%)
Operating Expenses[2]	2,271,049	2,903,938	2,738,913	1,815,424	1,737,640	(23%)
Non-Operating Expenses[3]	10,378	185	-	-	33,515	223%
Transfers-Out	4,561,348	1,870,846	1,494,545	3,893,348	576,945	(87%)
Total Uses	**$ 8,783,720**	**$ 6,836,401**	**$ 5,920,536**	**$ 7,576,665**	**$ 3,449,166**	**(61%)**
Ending Balance	**$ 8,198,292**	**$ 7,364,661**	**$ 6,919,044**	**$ 10,113,328**	**$ 12,233,668**	**49%**

Desert Research Institute	2018	2019[1]	2020[1]	2021	2022	Increase (Decrease) 2018–2022
Beginning Balance	**$ 20,223,722**	**$ 19,403,377**	**$ 16,831,236**	**$ 15,588,494**	**$ 20,861,618**	
Sources:						
Student Fee Revenues	$ -	$ -	$ -	$ -	$ -	-
Sales and Services Revenues	428,453	281,462	270,697	205,435	211,172	(51%)
Investment Income[4]	524,295	647,294	724,404	6,085,246	2,171,121	314%
Other Revenues[2]	11,011,146	10,320,608	10,535,302	11,529,687	11,676,130	6%
Transfers-In	19,578,451	6,888,785	6,955,073	6,019,272	7,905,308	(60%)
Total Sources	**$ 31,542,345**	**$ 18,138,149**	**$ 18,485,476**	**$ 23,839,640**	**$ 21,963,731**	**(30%)**
Uses:						
Personnel Expenses	$ 9,975,730	$ 11,454,432	$ 10,687,319	$ 9,616,272	$ 9,081,325	(9%)
Operating Expenses[2]	1,978,412	2,005,750	1,264,907	2,567,796	1,609,381	(19%)
Non-Operating Expenses[3]	214,449	132,027	164,653	158,652	190,528	(11%)
Transfers-Out	19,712,843	7,118,251	7,611,339	6,223,796	7,557,880	(62%)
Total Uses	**$ 31,881,434**	**$ 20,710,460**	**$ 19,728,218**	**$ 18,566,516**	**$ 18,439,114**	**(42%)**
Ending Balance	**$ 19,884,633**	**$ 16,831,066**	**$ 15,588,494**	**$ 20,861,618**	**$ 24,386,235**	**23%**

Appendix B

Self-Supporting Funds by Institution
Fiscal Years 2018 to 2022 (continued)

System Administration	**2018**	**2019[1]**	**2020[1]**	**2021**	**2022[1]**	**Increase (Decrease) 2018–2022**
Beginning Balance	**$ 24,676,818**	**$ 19,557,394**	**$ 15,126,732**	**$ 18,715,119**	**$ 11,126,626**	
Sources:						
Student Fee Revenues	$ -	$ -	$ -	$ -	$ -	-
Sales and Services Revenues	2,191,799	1,896,127	2,383,484	2,447,634	2,447,252	12%
Investment Income[4]	1,555,529	1,547,626	1,612,003	1,853,973	677,767	(56%)
Other Revenues[2]	8,242,278	10,467,010	15,703,360	8,844,185	1,818,026	(78%)
Transfers-In	2,259,299	3,367,654	3,946,242	5,032,260	4,256,616	88%
Total Sources	**$ 14,248,905**	**$ 17,278,417**	**$ 23,645,089**	**$ 18,178,052**	**$ 9,199,661**	**(35%)**
Uses:						
Personnel Expenses	$ 2,796,551	$ 3,221,790	$ 3,143,767	$ 3,000,564	$ 3,148,127	13%
Operating Expenses[2]	11,482,695	15,673,515	11,654,102	11,146,678	1,369,054	(88%)
Non-Operating Expenses[3]	380,634	182,585	-	189	-	(100%)
Transfers-Out	3,756,720	2,602,957	5,258,833	5,100,704	5,931,853	58%
Total Uses	**$ 18,416,600**	**$ 21,680,847**	**$ 20,056,702**	**$ 19,248,135**	**$ 10,449,034**	**(43%)**
Ending Balance	**$ 20,509,123**	**$ 15,154,964**	**$ 18,715,119**	**$ 17,645,036**	**$ 9,877,253**	**(52%)**

All Institutions	**2018**	**2019[1]**	**2020[1]**	**2021**	**2022[1]**	**Increase (Decrease) 2018–2022**
Beginning Balance	**$396,736,217**	**$375,454,129**	**$344,780,958**	**$382,375,773**	**$520,770,736**	
Sources:						
Student Fee Revenues	$217,640,550	$233,153,282	$247,473,287	$256,169,112	$261,029,604	20%
Sales and Services Revenues	143,143,368	160,942,081	158,275,803	160,361,185	185,982,143	30%
Investment Income[4]	15,836,572	11,358,638	9,371,682	64,134,982	26,331,341	66%
Other Revenues[2]	84,271,241	89,070,852	178,893,242	163,682,765	155,537,563	85%
Transfers-In	195,297,236	245,289,583	212,561,711	279,108,490	273,499,424	40%
Total Sources	**$656,188,967**	**$739,814,436**	**$806,575,725**	**$923,456,534**	**$902,380,075**	**38%**
Uses:						
Personnel Expenses	$238,041,588	$251,325,316	$266,203,756	$277,770,944	$259,035,195	9%
Operating Expenses[2]	208,503,133	210,567,396	200,693,427	209,645,784	205,374,274	(2%)
Non-Operating Expenses[3]	2,591,705	7,060,679	4,014,217	11,293,043	5,075,905	96%
Transfers-Out	238,759,467	301,506,154	298,069,510	298,237,939	324,561,673	36%
Total Uses	**$687,895,893**	**$770,459,545**	**$768,980,910**	**$796,947,710**	**$794,047,047**	**15%**
Ending Balance	**$365,029,291**	**$344,809,020**	**$382,375,773**	**$508,884,597**	**$629,103,764**	**72%**

Source: NSHE accounting system.

(1) Beginning and ending balances did not always agree from 1 year to the next. Adjustments were made between fiscal years 2018 and 2019 mainly due to the conversion to the new accounting system. Other changes between years occurred for reclassifications and accounting adjustments. In most instances, we were able to identify the majority of the variance between years.

(2) Detailed information did not always agree exactly to overall budget reports due to timing and other minor differences in how data is retrieved from NSHE's accounting system. We modified Other Revenues and Operating Expenses to account for these differences.

(3) Non-Operating Expenses include capital expenditures, interest, debt payments and related fees.

(4) Each institution accounts for its investment income differently. The above amounts only display the activities within self-supporting funds.

Appendix C
Audit Methodology

To gain an understanding of the Nevada System of Higher Education (NSHE), we interviewed staff, reviewed state laws, regulations, and Board of Regents (Board) policies and procedures significant to its operations. We also reviewed financial information, prior audit reports, budgets, legislative committee minutes, and other information describing NSHE activities. Furthermore, we documented and assessed NSHE's controls related to transfers of expenditures between state-supported and self-supporting accounts, sources and uses of self-supporting activities, reserve and contingency accounts, amounts retained in self-supporting accounts, and distributions from the investment account to self-supporting programs.

Our audit included a review of NSHE's internal controls significant to our audit objective. Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. The scope of our work on controls related to the self-supporting and reserve and contingency accounts included the following:

- Performance of monitoring activities (Monitoring);
- Design of control activities (Control Activities);
- Demonstrating a commitment to integrity and ethical values; establishing structure, responsibility and authority; and exercising oversight responsibility (Control Environment); and

- Use of quality information (Information and Communication).

Deficiencies and related recommendations to strengthen NSHE's internal control systems are discussed in the body of the report. The design, implementation, and ongoing compliance with internal controls is the responsibility of NSHE management.

To assess the reliability and reasonableness of data stored in NSHE's accounting system, we verified the completeness of the user list and Assignable Roles Report. To determine whether employees with similar jobs had similar levels of access and how the assignment of user roles varied, we judgmentally selected 41 users based on type. We also reviewed every user with administrative privileges to determine completeness, reasonableness, and appropriateness. Next, we judgmentally selected 57 transactions of select transaction types from recent accounting activity and determined if transactions were processed in accordance with system controls. We did not determine a population. We determined the data stored in NSHE's accounting system to be sufficiently complete and accurate for our purposes.

Our analysis of self-supporting activity included a review of transactions that moved expenses to and from state-supported and self-supporting accounts for all institutions. We requested NSHE provide transactions related to these activities. NSHE staff developed a report specifically to identify these transactions in the accounting system. We confirmed the reliability of this information by reviewing it for reasonableness and comparing the data to other system reports and information. We focused on transactions that occurred in March, April, and on or near June 30, and judgmentally selected 90 of 12,961 transactions mainly based on the largest dollar amount. We reviewed the transactions to determine whether amounts crossed functional categories, aligned with the respective activities, or were done to utilize all state funds first.

To analyze whether student fees were spent appropriately we identified the student fee funded programs by reviewing the revenue ledgers for evidence of student fee related activity. We randomly selected 150 expenditure transactions from a population of 332,158 to determine whether expenditures met the intent of Board policy regarding the specific fees' use.

We also reviewed transfer transactions, judgmentally selecting the largest 25 source and use transactions from a population of 8,622. Next, we examined the selected transactions for appropriateness regarding the relationship to each program's funding source and whether transfers-out appeared appropriate.

Our analysis also included large dollar transactions for both sources and uses in self-supporting programs. We identified the 15 largest source transactions and 50 largest use transactions in the self-supporting funds. We examined the selected transactions to determine the nature of the activity and the appropriateness of the transaction.

Next, we obtained various reports from NSHE's accounting system to determine whether certain programs went through the budget process in compliance with Board policies. We reviewed activity and evaluated whether exempted items were excluded.

To determine whether self-supporting programs retained more funding than used annually, we identified student fee funded programs with at least 1 year's worth of average revenues. We compared these programs across all 4 fiscal years and identified those with ending balances exceeding their average annual revenue for at least 3 consecutive years. We also reviewed 36 transactions to ensure the funds were used in accordance with policies for student fees. To evaluate whether self-supporting programs funded by non-student fees were carrying excessive reserves, we reviewed programs with ending balances that were at least 75% of their uses for all 4 years. We tested 51 transactions and reviewed them for reasonableness related to the funding source.

Next, we reviewed reserve and contingency account transactions. First, we identified and confirmed a list of accounts from each institution. We then judgmentally selected 20 source and 20 use transactions based on the largest dollar amount and randomly selected an additional 30 source and 30 use transactions. A total of 100 transactions were reviewed from a population of 3,344. We reviewed the transactions to ensure the accounts were funded by unrestricted revenues. We also reviewed transactions to determine the reasonableness of expenses.

Finally, we reviewed information related to the special distributions from the investment operating pool to cover state-mandated budget cuts related to the pandemic. We discussed the pool and how it operates with appropriate NSHE personnel. Furthermore, we reviewed Board minutes related to the distributions and compared actual amounts provided to institutions against authorized amounts. Next, we verified the calculation of the special distributions to ensure allocations were accurate.

During the course of our audit, we discussed financial activity and related issues with various personnel at each institution. We also communicated with System Administration regarding audit progress and various items needing clarification. Board policies as referenced throughout this report are those in effect during our scope period.

We used nonstatistical audit sampling for our audit work, which was the most appropriate and cost-effective method for concluding on our audit objective. Based on our professional judgment and review of authoritative sampling guidance, we believe nonstatistical sampling provided sufficient, appropriate audit evidence to support the conclusions in our report. We did not project the results of our testing because we used both random and judgmental selections which prevents accurate projection.

Our audit work was conducted from July 2021 to October 2022. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Chancellor. On December 16, 2022, we met with the Chancellor to discuss the results of the audit and requested a written response to the preliminary report. That response is contained in Appendix D, which begins on page 48.

Contributors to this report included:

Shannon Riedel, CPA
Chief Deputy Legislative Auditor

Dameon Meeks, MBA
Deputy Legislative Auditor

Kam Wai Cheung, CPA
Deputy Legislative Auditor

Parker Cole, MA
Deputy Legislative Auditor

Tammi Cline, CPA
Deputy Legislative Auditor

Appendix D
Response From the Nevada System of Higher Education

Nevada System of Higher Education

System Administration
4300 South Maryland Parkway
Las Vegas, NV 89119-7530
Phone: 702-889-8426
Fax: 702-889-8492

System Administration
2601 Enterprise Road
Reno, NV 89512-1666
Phone: 775-784-4901
Fax: 775-784-1127

MEMORANDUM

Date: December 23, 2022

To: Daniel L. Crossman, Legislative Auditor

From: Dale A.R. Erquiaga, Acting Chancellor Dale A.R. Erquiaga

Re: NSHE Response to the 2022 Performance Audit of Self-Supporting and Reserve Accounts

INTRODUCTION

Thank you for the opportunity to respond to the 2022 Performance Audit findings. The Nevada System of Higher Education (NSHE) appreciates that the intent of this audit was to assess compliance with NSHE policies and procedures as well as with legislation and regulations established by the State of Nevada, and to provide recommendations on how NSHE can improve compliance within its operations.

We understand the value of the audit as it identified deficiencies that need to be addressed, opportunities for improvement to enhance accountability and operational management, and areas where differences in interpretation of the guidance or expectations may exist. NSHE has begun work to address the findings in the audit related to self-supporting and reserve accounts.

Below are the Legislative Counsel Bureau audit recommendations and NSHE's related responses.

RECOMMENDATIONS AND RESPONSES

Recommendation 1: Develop policies over the transfer of expenditures between state-supported and self-supporting accounts at any time of the year. The Board should determine whether transactions that modify approved spending by crossing expense categories are acceptable, or if additional monitoring and oversight are warranted.

Response: NSHE agrees with and accepts this recommendation.

NSHE is in the process of working with appropriate, representative staff to develop policies to define the allowable transfers of expense through out the year between state-supported and self-supporting accounts and will seek approval or direction from the Board for additional monitoring or oversight.

University of Nevada, Las Vegas • University of Nevada, Reno • Nevada State College • Desert Research Institute
College of Southern Nevada • Great Basin College • Truckee Meadows Community College • Western Nevada College

Recommendation 2: Develop systemwide monitoring controls over transfers between state-supported and self-supporting accounts to ensure policies are followed.

Response: NSHE agrees with and accepts this recommendation.

NSHE is in the process of working with appropriate, representative staff to develop monitoring controls over transfers between state-supported and self-supporting accounts to ensure policies are followed.

Recommendation 3: Implement controls, including monitoring activities, that would prevent or detect inappropriate financial activity to ensure compliance with state funding requirements and applicable laws.

Response: NSHE agrees with and accepts this recommendation.

NSHE is in the process evaluating preventative and/or detective controls over financial activities to ensure compliance with funding requirements and applicable laws. This evaluation will range from transaction initiation through approval to ensure appropriations are used for intended purposes, as well as increased guidance on transfers of expenses and the reversion of state appropriations.

Recommendation 4: Revise Board policies regarding student fees to clarify Board intentions regarding acceptable and unacceptable uses of each student fee, including eliminating ambiguity and adding definitions where necessary.

Response: NSHE agrees with and accepts this recommendation.

NSHE will work with appropriate, representative staff to seek Board approval or direction regarding policy revisions for student fees that would clarify Board intentions regarding acceptable (and unacceptable) uses of each student fee, adding definitions where necessary and appropriate.

Recommendation 5: Develop Board policies over commingled revenue sources to ensure restricted funds are separated from other sources of revenue or spending of restricted revenues is tracked to ensure funds are used for intended purposes.

Response: NSHE agrees with and accepts this recommendation.

NSHE will work with appropriate, representative staff to develop policies over commingled revenue sources to ensure restricted funds are separated from other sources of revenue or spending of restricted revenues can be tracked to ensure funds are used for intended purposes.

Recommendation 6: Revise Board policies adding clarification over student fee reporting to request appropriate detail, adequately oversee institution operations, and ensure compliance with policy intent.

Response: NSHE agrees with and accepts this recommendation.

NSHE will work with appropriate, representative staff to seek Board approval or direction regarding policy revisions to add clarification over student fee reporting to request appropriate amount of detail, to provide adequate oversight of institution operations, and to ensure compliance with policy intent.

Recommendation 7: Develop controls over reporting systemwide and at the institutions to ensure accuracy, completeness, and consistency.

Response: NSHE agrees with and accepts this recommendation.

NSHE is in the process of working with appropriate, representative staff to develop or enhance controls over reporting systemwide and at the institutions to ensure accuracy, completeness, and consistency.

Recommendation 8: Revise student fee reporting templates and provide written instructions to ensure institutions report consistent and accurate information.

Response: NSHE agrees with and accepts this recommendation.

NSHE is in the process of working with appropriate, representative staff to revise student fee reporting templates, including written instructions to ensure institutions report on a consistent basis with accurate information.

Recommendation 9: Create Board policies over reserve and contingency accounts, including the account's purpose, development of target balances, appropriate funding sources and uses, appropriate approval levels, and monitoring and reporting requirements. Policy should define the difference between reserve and contingency accounts and the appropriate funding, uses, and approvals for each.

Response: NSHE agrees with and accepts this recommendation.

NSHE will work with appropriate, representative staff to seek Board approval or direction regarding policies over reserves and contingency accounts, including appropriate definitions, funding, uses, and approvals. This will include the account's purpose, target balances and appropriate funding sources and uses. In addition, compliance will be measured through appropriate approval documentation, and development of monitoring and reporting requirements.

Recommendation 10: Develop systemwide monitoring controls over reserve and contingency accounts to ensure policies are followed.

Response: NSHE agrees with and accepts this recommendation.

NSHE will work with appropriate, representative staff to develop or enhance systemwide monitoring controls over reserve and contingency accounts to ensure compliance with policy.

Recommendation 11: Revise Board policies to define "self-supporting" programs so Board intent is clear.

Response: NSHE agrees with and accepts this recommendation.

NSHE will work with appropriate, representative staff to seek Board approval or direction regarding policy revisions to define self-supporting programs in line with Board intent.

Recommendation 12: Evaluate student fee funded and other self-supporting programs that contain a high balance and determine whether fees should be reduced, or funds redirected accordingly.

Response: NSHE agrees with and accepts this recommendation.

NSHE will work with appropriate, representative staff to evaluate student fee and self-supporting program fund balances and determine where adjustments should be made. A new policy may be developed to document this review and ensure a periodic and continuous process.

Recommendation 13: Develop Board policies regarding the carrying, monitoring, and reporting of non-student fee funded self-supporting programs with high balances.

Response: NSHE agrees with and accepts this recommendation.

NSHE will work with appropriate, representative staff to seek Board approval or direction regarding policy development regarding the carrying, monitoring, and reporting of non-student fee funded self-supporting programs with large balances.

CONCLUSION

Thank you for the opportunity to meet and discuss the audit findings. As noted, NSHE has accepted all recommendations and has begun the important work necessary to properly address the findings. We look forward to reporting detailed improvements surrounding these recommendations in the future and will keep you apprised should there be any deviation from our expectations.

Nevada System of Higher Education's Response to Audit Recommendations

	Recommendations	Accepted	Rejected
1.	Develop policies over the transfer of expenditures between state-supported and self-supporting accounts at any time of the year. The Board should determine whether transactions that modify approved spending by crossing expense categories are acceptable, or if additional monitoring and oversight are warranted	X	
2.	Develop systemwide monitoring controls over transfers between state-supported and self-supporting accounts to ensure policies are followed	X	
3.	Implement controls, including monitoring activities, that would prevent or detect inappropriate financial activity to ensure compliance with state funding requirements and applicable laws	X	
4.	Revise Board policies regarding student fees to clarify Board intentions regarding acceptable and unacceptable uses of each student fee, including eliminating ambiguity and adding definitions where necessary	X	
5.	Develop Board policies over commingled revenue sources to ensure restricted funds are separated from other sources of revenue or spending of restricted revenues is tracked to ensure funds are used for intended purposes	X	
6.	Revise Board policies adding clarification over student fee reporting to request appropriate detail, adequately oversee institution operations, and ensure compliance with policy intent	X	
7.	Develop controls over reporting systemwide and at the institutions to ensure accuracy, completeness, and consistency	X	
8.	Revise student fee reporting templates and provide written instructions to ensure institutions report consistent and accurate information	X	
9.	Create Board policies over reserve and contingency accounts, including the account's purpose, development of target balances, appropriate funding sources and uses, appropriate approval levels, and monitoring and reporting requirements. Policy should define the difference between reserve and contingency accounts and the appropriate funding, uses, and approvals for each	X	

Nevada System of Higher Education's Response to Audit Recommendations (continued)

	Recommendations	Accepted	Rejected
10.	Develop systemwide monitoring controls over reserve and contingency accounts to ensure policies are followed	X	
11.	Revise Board policies to define "self-supporting" programs so Board intent is clear	X	
12.	Evaluate student fee funded and other self-supporting programs that contain a high balance and determine whether fees should be reduced, or funds redirected accordingly	X	
13.	Develop Board policies regarding the carrying, monitoring, and reporting of non-student fee funded self-supporting programs with high balances	X	
TOTALS		13	