

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)