Audit Highlights

Highlights of Legislative Auditor report on the Nevada College Savings Program, Office of the State Treasurer, issued on May 21, 2007. Report# LA08-04.

Background

In 2001, the Legislature, through Assembly Bill 554, established the Nevada College Savings Program and the Nevada College Savings Trust Fund. The Program's mission is to increase the number of families who save for higher education expenses by providing tax-free investment methods. The Program is administered by the Office of the State Treasurer and the Board of Trustees of the College Savings Plans of Nevada. The State Treasurer serves as the Board's chairman. The five member board also includes the Director of the Department of Administration, a designee of the Chancellor of the University System, and two Governor appointees. State law empowers the Board with the responsibility of governing the Program's activities.

Nevada's Program is the seventh largest in the country, based on total assets as of the end of 2006, with total assets of $3.3 billion. The Program includes four plans administered by a program manager under contract with the State. The Program earns fees from the assets in the four plans. The State uses the fees to provide oversight and promote the Program. The Program also receives funds from the Program Manager for administration and marketing.

Purpose of Audit

The purpose of our audit was to determine whether: (1) the financial activities of the Nevada College Savings Trust Fund were properly accounted for, and (2) the operations of the Program have been conducted in accordance with applicable laws, regulations, and contractual obligations. This audit included the activities of the Nevada College Savings Program administered by the Office of the State Treasurer and the Board of Trustees of the College Savings Plans of Nevada from inception of the Program in 2001 to December 31, 2006.

Audit Recommendations

This report contains 13 recommendations to improve the financial and administrative practices of the Nevada College Savings Program. Specifically, the State Treasurer's Office should record all Program transactions through the State's Accounting System in the Nevada College Savings Trust Fund or other accounts budgeted by the Legislature. In addition, the Office should prepare annual financial statements and develop detailed accounting and internal control procedures. Furthermore, the Office and the Board of Trustees should comply with laws and regulations for entering into contracts and paying contractors.

The Office accepted the 13 audit recommendations.

Status of Recommendations

The Office's 60-day plan for corrective action is due on August 15, 2007. In addition, the six-month report on the status of audit recommendations is due on February 15, 2008.

For more information about this or other Legislative Auditor reports go to: http://www.leg.state.nv.us/audit (775) 684-6815.

Nevada College Savings Program

Office of the State Treasurer

Results in Brief

Although participant money in the Nevada College Savings Program was properly handled and accounted for, money earned by the State was not. More than $6 million of state funds were held outside the state system and used to pay Program expenses. As a result, expenditure levels authorized by the Legislature have been exceeded. Furthermore, the Program's financial transactions have not been accounted for in the Trust Fund created by the Legislature. Therefore, controls normally associated with state funds have not been established, including formal accounting records, a system of accounts, and periodic financial reports. In addition, the State Treasurer's Office has not established accounting or internal control procedures for the Program. Finally, the State Treasurer's Office and the Board of Trustees did not always follow statutory requirements when contracting for services. Some contracts were not properly approved and payments were made in excess of amounts specified in three contracts.

Principal Findings

Of the $11.2 million in funding available to the State since the Program started, more than $6 million was not deposited in the State Treasury. Pursuant to instructions from Program officials in the State Treasurer's Office, the Program Manager held a portion of the state's funds rather than remitting them for deposit to the State Treasury.

We determined that more than $6 million was paid for Program expenses from funds held outside the State Treasury. Of this amount, more than $3.4 million was paid by program managers to the state's Plan Advisor. Of the remaining $2.6 million, $1,536,000 was paid for marketing and advertising services, nearly $985,000 for legal services, and $45,000 for other expenses. These payments were made by the Program Manager as directed by officials within the State Treasurer's Office.

During the 5½-year period the Program has been in operation, the Legislature approved total expenditures of $1.6 million. However, more than $7 million of Program expenses have been incurred during that time. Because most of these expenses were paid outside of the state system, the budgetary controls normally associated with state expenditures have been bypassed. As a result, administrative and marketing expenses for the Program have exceeded the legislatively approved budget each year the Program has been in operation.

The financial transactions of the Nevada College Savings Program have not been accounted for in the Trust Fund established by the Legislature when the Program was created. Although the Trust Fund was initially set up in the State's Accounting System, it was removed by the State Controller's Office at the end of fiscal year 2002. As a result, the accounting for the Program's administrative activity was transferred to a budget account within the State General Fund.

A law firm has been paid nearly $985,000 for legal services since Program inception. Since the contracts for these services were with the State Treasurer's Office, the Board of Trustees has not signed or approved any of these contracts. In addition, the Board has never been a party to any of the contracts, although it designated the firm as outside counsel. NRS 353B.370 requires the Board of Trustees to enter into contracts for services provided to the Program.

The composite hourly rate paid for legal services during the term of the contract ended June 30, 2002, was $428.64. This is significantly higher than the $225 specified in the contract. Consequently, the law firm was paid nearly $96,000 in excess of the contract rate.

The State Treasurer's Office made payments to the Plan Advisor of about $500,000 which were not properly supported or did not adhere to the terms of the contract. First, the contractor was paid $200,000 for initial program development services, including $141,000 for reimbursement of expenses. However, the contractor was paid without sufficient documentation to support the out-of-pocket expenses. Second, the Plan Advisor was paid $300,000 from monies the State received for marketing and administrative support from the Program Manager. Since this was not money earned on asset-based or account-based fees, the State was not contractually obligated to make these payments.

The State Treasurer's Office made payments to a marketing firm in excess of the $185,000 maximum allowed each year under the contract. Payments made in fiscal year 2005 exceeded the contract maximum by $451,366 and in fiscal year 2006 by $878,705.