

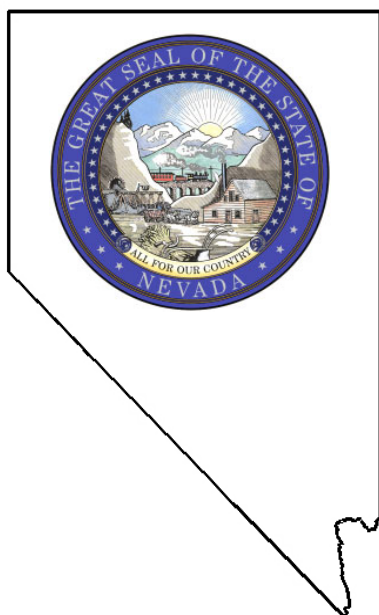
STATE OF NEVADA

Performance Audit

Nevada System of Higher Education

Institution Foundations

2022



Legislative Auditor
Carson City, Nevada

Audit Highlights



Highlights of performance audit report on the Nevada System of Higher Education, Institution Foundations issued on January 12, 2023.

Legislative Auditor report # LA24-05.

Background

The Nevada System of Higher Education (NSHE) includes eight institutions which accept privately donated money through each institution's foundation(s). The foundations serve as the primary fundraising, community relations, and gift management agency for their respective institutions. These efforts typically include managing annual giving programs, scholarship giving programs, facilities support, and estate planning services on behalf of and to benefit each institution. Each foundation is a non-profit corporation established for charitable and educational purposes and is a tax-exempt entity in accordance with Section 501(c)(3) of the Internal Revenue Code.

Donations received by foundations are recorded as either unrestricted, restricted, or endowed support depending on the existence or nature of any donor restrictions.

The foundations' financial statements are provided to the NSHE Board of Regents each year and are made available publicly on the Board of Regents' website.

Purpose of Audit

This audit was required by Assembly Bill 416 (Chapter 467, Statutes of Nevada 2021). The scope of our audit included an examination and analysis of the sources and uses of money privately donated to certain NSHE institutions in fiscal year 2018 through fiscal year 2021. We also tested select transactions from fiscal year 2022 as deemed necessary. The purpose of the audit was to determine if privately donated money was appropriately recorded and spent in accordance with donors' intended purposes.

Audit Recommendations

This audit report contains three recommendations to ensure adequate policies are in place related to documenting acknowledgment letters or donation receipts, verifying key control processes are occurring, and reviewing inactive gift accounts.

NSHE accepted the three 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.

Institution Foundations

Nevada System of Higher Education

Summary

We found almost all gift donations were assigned to the appropriate foundation gift account in accordance with the donors' intent. However, there were instances in our sample where this did not occur consistently at a couple institutions' foundations. Additionally, while most donations were properly recorded, there were some differences in how certain related processes were performed. Specifically, records were not always maintained to demonstrate gift acknowledgement letters or receipts were issued to donors for every gift. Improved recordkeeping will help ensure donors receive adequate documentation to serve as support for tax deductible donations.

We found institutions generally expended gift funds in accordance with donor intent. However, some institutions carried forward unspent gift funds for multiple years that possibly could be utilized through related active accounts or be repurposed for other uses if agreed upon by donors. Additionally, in a few instances, gift funds were expended in a manner that did not appear to align with donors' intent. During the scope of our audit, changes to one institution's practices appear to have corrected this issue. In other cases, documentation supporting expenditures lacked some supporting details.

Key Findings

Overall, our testing found 763 of 774 (99%) sampled donations at 7 institutions were properly recorded by the foundations in appropriate gift fund accounts at the institutions. This sample included \$116 million in donations received between July 1, 2017, and June 30, 2021. We confirmed the dollar value of the donation and the categorization in an appropriate gift fund aligned with the donation. (page 8)

Adequate documentation associated with donations and accompanying donor wishes were generally retained to support transactions. However, in certain instances, foundations could not provide evidence that all donation acknowledgment letters were sent to donors. For 65 of 774 (8%) donations tested, letters or donation receipts were not available at 5 of 7 foundations. (page 9)

During testing at College of Southern Nevada (CSN) Foundation, we found for 7 of 110 (6%) samples there were errors between the donation information recorded in CSN Foundation's donor management software and the CSN Foundation's financial software. These errors were not seen at other institutions' foundations. (page 11)

At Great Basin College (GBC) Foundation, we identified one instance where donated money was not applied to the correct gift fund in accordance with donor intent. In 2018, a donation of almost \$94,000 designated by the donor for a memorial scholarship endowment was assigned to an unrestricted GBC Foundation account. We verified the money was transferred to the correct gift fund in October 2022. (page 11)

Our testing found 686 of 690 (99%) gift fund expenditures tested were appropriately spent in accordance with the intended purpose of the gift fund. This sample included expenditures totaling \$23 million spent between July 1, 2017, and June 30, 2021. Additionally, adequate documentation associated with the expenditures was retained to support the transactions for 680 (99%) of the expenditures in our sample. (page 13)

At six institutions, we found that privately donated money went unutilized in certain accounts for multiple years. While some of these accounts may be saving funds for a future purpose, many did not have donation or expenditure activity for at least 5 years. Some institutions' gift funds would benefit from a routine review of stale accounts to identify opportunities to repurpose funds to other actively utilized accounts consistent with the donations' intended purpose. (page 14)

While 99% of donor funds were used in accordance with donor intent, we did find instances where this was not the case. At some institutions, we found a few instances where gift expenditures did not have sufficient supporting documentation or evidence the expenditure was in alignment with the intended purpose of the gift funds. In our assessment, these were not egregious deviations but warranted the attention of the institutions. (page 16)

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, Institution Foundations. 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 three recommendations to ensure adequate policies are in place related to documenting acknowledgment letters or donation receipts, verifying key control processes are occurring, and reviewing inactive gift accounts. 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,

A handwritten signature in black ink that reads "Daniel L. Crossman".

Daniel L. Crossman, CPA
Legislative Auditor

December 27, 2022
Carson City, Nevada

Nevada System of Higher Education Institution Foundations

Table of Contents

- Introduction..... 1
 - Background 1
 - Scope and Objective 6
- Donations Were Appropriately Recorded by the Foundations 8
 - Inconsistency in Providing Acknowledgement Letter to Donors..... 9
 - Recordkeeping Practices Could Be Improved at One Institution..... 11
 - Incorrect Gift Fund Allocation at One Institution 11
- Institutions Generally Expended Donated Funds Consistent With Donor Intent..... 13
 - Certain Gift Accounts Had No Activity for Years 14
 - Limited Number of Expenses Did Not Align With Donor Intent or Have Sufficient Supporting Documentation 16
- Appendices
 - A. Assembly Bill 416, Chapter 467 From the 2021 Legislative Session 19
 - B. Audit Methodology 21
 - C. Response From the Nevada System of Higher Education 27

Introduction

Background

The Nevada System of Higher Education (NSHE) includes eight institutions which accept privately donated money through each institution's foundation(s). The foundations serve as the primary fundraising, community relations, and gift management agency for their respective institutions. These efforts typically include managing annual giving programs, scholarship giving programs, facilities support, and estate planning services on behalf of and to benefit each institution. Each foundation is a non-profit corporation established for charitable and educational purposes and is a tax-exempt entity in accordance with Section 501(c)(3) of the Internal Revenue Code. The NSHE Board of Regents ratifies the appointment of members of the Board of Trustees for each foundation. The following are the NSHE institution foundations and associated foundations:

College of Southern Nevada (CSN) Foundation

Desert Research Institute (DRI) Foundation

Great Basin College (GBC) Foundation

Nevada State College (NSC) Foundation

Truckee Meadows Community College (TMCC) Foundation

University of Nevada, Las Vegas (UNLV) Foundation

Associated Foundations:

UNLV Alumni Association

UNLV Rebel Football Foundation

UNLV Rebel Golf Foundation

UNLV Rebel Soccer Foundation

UNLV Research Foundation

University of Nevada, Reno (UNR) Foundation

Associated Foundation:

Wolf Pack Athletic Association

Western Nevada College (WNC) Foundation

Private Donations

The Board of Regents defines a gift as a benevolent donation which does not require any commitment of institutional resources or services other than the commitment made to carry out the agreed upon intent of the donor for the use of the gift funds. Gift donations can be made to foundations in various ways including through cash, check, online payments, payroll contributions, property, artwork, stocks, or even bequests from an estate or trust.

Donations received by foundations are recorded as either restricted or unrestricted depending on the existence or nature of any donor restrictions. A donor can restrict their donation to be used for a specific purpose, or they can make their donation unrestricted, in which case the foundation can use that money for general operations and programs of the foundation. Additionally, while a donor can restrict a donation to a specific institution program when the money is transferred to the program, unless otherwise stipulated, the program can then use the funding at its discretion.

Typically, larger donations have donor agreements and donors may require additional reporting as to how the donated money was spent. For most scholarships, donors have scholarship agreements that specify criteria that must be met by students such as participation in a specific academic program, minimum grade point average, or other such requirements. At institutions, the scholarship office and programs are tasked to ensure that students meet the required criteria prior to the scholarship being awarded.

Administrative Fees

Each foundation is allowed to charge an administrative fee per donation. Typically, this is a percentage of the donation to cover the costs of operating the foundation. The administrative fee is considered unrestricted funds to be used as the foundations see fit. Exhibit 1 details the administrative fees charged by the main eight NSHE institution foundations.

Administrative Fees by Foundation**Exhibit 1**

Foundation	Administrative Fees	
	Percent of Donation	Explanation
College of Southern Nevada	0.00%	
Desert Research Institute	0.00%	
Great Basin College	3.00%	Prior to August 2021, the foundation did not assess an administrative fee. The fee does not apply to donations associated with pledges made prior to the establishment of the fee. Additionally, the fee does not apply to donations for unrestricted support of foundation administrative operations, donations passed through the foundation as part of Great Basin College faculty/staff/student fundraisers or in-kind contributions. No administrative fee will be assessed for short-term scholarship funds expected to be distributed within one year of receipt.
Nevada State College	3.00%	The foundation may waive the fee for scholarship donations.
Truckee Meadows Community College	0.00%	
University of Nevada, Las Vegas	5.00%	The foundation splits the administrative fee with 1% of the fee going to the college department associated with the donation and 4% of the fee going to the foundation itself. Prior to July 2021, the foundation assessed a 2% fee which was evenly split between the foundation and the college department.
University of Nevada, Reno	0.00%	
Western Nevada College	5.00%	The fee does not apply to donations associated with scholarships or grants.

Source: Auditor prepared based on review of policies and interviews with foundation staff.

Growth of Foundations

Financial statements include significant details that provide important information regarding the financial health of an entity. The information we present in the following section summarizes select data from the foundations' financial statements. Readers are encouraged to review the foundations' actual financial statements to obtain additional information and details.

The difference between revenues and expenditures in a year is referred to as the change in net position. Exhibit 2 shows the summary of the change in net position for the fiscal year ended June 30, 2021, for the various foundations.

**Summary of Changes in Net Position by Foundation
Fiscal Year Ended June 30, 2021**

Exhibit 2

Foundation	Operating Support and Revenues	Operating Expenses	Nonoperating Revenues (Expenses)⁽¹⁾	Changes in Net Position
College of Southern Nevada	\$ 1,691,740	\$ (873,786)	\$ 1,350,571	\$ 2,168,525
Desert Research Institute	1,166,403	(785,842)	892,216	1,272,777
Great Basin College	3,890,010	(4,370,367)	2,536,438	2,056,081
Nevada State College	1,640,493	(1,418,968)	10,000	231,525
Truckee Meadows Community College	3,323,929	(2,358,062)	129,206	1,095,073
University of Nevada, Las Vegas	21,093,864	(49,468,055)	85,518,883	57,144,692
University of Nevada, Reno	44,680,285	(45,712,570)	71,670,304	70,638,019
Western Nevada College	\$ 1,387,858	\$ (1,365,280)	\$ 175,914	\$ 198,492

Source: Auditor prepared based on foundations' financial statements.

⁽¹⁾ Nonoperating revenues primarily include investment income.

The net position of a foundation reflects the cumulative excess of revenues and expenditures since the foundation's inception. Exhibit 3 shows the foundations' net positions at the end of the past 5 fiscal years.

**Foundation Net Positions
As of June 30, 2017 to 2021**

Exhibit 3

Foundation	2017	2018	2019	2020	2021
College of Southern Nevada	\$ 6,301,552	\$ 6,463,668	\$ 6,919,053	\$ 9,803,218	\$ 11,971,743
Desert Research Institute	720,059	965,746	825,344	1,818,581	3,091,358
Great Basin College	9,060,021	9,759,221	17,057,876	16,466,656	18,522,737
Nevada State College	9,274,927	7,473,159	12,945,412	7,301,043	7,532,568
Truckee Meadows Community College	2,859,516	4,800,799	4,791,220	3,197,684	4,292,757
University of Nevada, Las Vegas	366,968,254	360,578,694	379,264,283	392,908,629	450,053,321
University of Nevada, Reno	292,325,469	316,384,342	304,146,688	303,423,536	374,061,555
Western Nevada College	\$ 75,185	\$ 116,244	\$ 150,168	\$ 228,387	\$ 426,878

Source: Auditor prepared based on foundations' financial statements.

Almost all foundations experienced significant growth over the 5-year period from 2017 to 2021.

Cash, Investments, and Other Assets

The foundations have significant assets that are comprised primarily of cash and investments. Investments have the potential to generate substantial income for the foundations depending largely on market conditions and investment approach.

Investment gains may contribute significantly to the growth of the foundations' assets in a given year. Some foundations allow NSHE to invest for them, while other foundations invest the money themselves. Exhibit 4 details a breakdown of the assets by significant type for each of the foundations as of June 30, 2021.

**Cash, Investments, and Other Assets
As of June 30, 2021**

Exhibit 4

Foundation	Cash and Equivalents	Investments⁽¹⁾	Other Assets⁽²⁾	Total Assets
College of Southern Nevada	\$ 4,237,154	\$ 6,715,382	\$ 1,072,948	\$ 12,025,484
Desert Research Institute	989,433	1,691,875	413,401	3,094,709
Great Basin College	5,127,255	9,952,724	4,442,927	19,522,906
Nevada State College	2,723,300	2,652,180	2,170,588	7,546,068
Truckee Meadows Community College	3,671,756	683,209	116,358	4,471,323
University of Nevada, Las Vegas	24,848,358	386,805,088	40,925,986	452,579,432
University of Nevada, Reno	19,425,592	328,275,856	33,237,792	380,939,240
Western Nevada College	1,634,794	5,082,625	-	6,717,419
Totals	\$62,657,642	\$741,858,939	\$82,380,000	\$886,896,581

Source: Auditor prepared based on foundations' financial statements.

Note: Associated foundations were not listed in this exhibit. UNR Foundation and UNLV Foundation associated foundations have total assets of \$33 million.

⁽¹⁾ Short- and long-term investments reported at fair market value. Includes equities and fixed income securities.

⁽²⁾ Includes pledges receivable, other receivables, investments in real estate, and other related items. Details available in audited financial statements.

Within these categories of assets, some are classified as unrestricted based on donor intent and may be utilized as seen fit by the foundation. The remaining assets are considered restricted assets and generally classified as either nonexpendable (i.e., permanent endowments) or expendable within the associated use restrictions placed upon the assets by donors. Exhibit 5 provides details of the percentage of assets within each of these categories.

**Availability of Foundation Assets
As of June 30, 2021**

Exhibit 5

Foundation	Restricted – Expendable	Restricted – Nonexpendable	Unrestricted	Other⁽¹⁾
College of Southern Nevada	67.7%	19.8%	12.5%	0.0%
Desert Research Institute	14.0%	0.0%	72.6%	13.4%
Great Basin College	66.2%	26.6%	7.2%	0.0%
Nevada State College	75.0%	17.6%	7.4%	0.0%
Truckee Meadows Community College	0.0%	86.1%	13.9%	0.0%
University of Nevada, Las Vegas	59.1%	38.5%	2.3%	0.1%
University of Nevada, Reno	48.5%	46.7%	4.8%	0.0%
Western Nevada College ⁽²⁾	-	-	-	-

Source: Auditor prepared based on foundations' financial statements.

⁽¹⁾ Includes net investments in capital assets.

⁽²⁾ WNC Foundation financial statements classify nonexpendable funds as liabilities. The financial statements do not distinguish between restricted – expendable and restricted – nonexpendable assets.

Additional information regarding each foundation's assets can be found in their respective financial statements. The foundations' financial statements are provided to the NSHE Board of Regents each year and are made available publicly on the Board of Regents' website.

**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 Nevada Revised Statutes (NRS) 218G.010 to 218G.350. The scope of our audit included an examination and analysis of the sources and uses of money privately donated to certain NSHE institutions in fiscal year 2018 through fiscal year 2021. We also tested select transactions from fiscal year 2022 as deemed necessary. Our audit objective was to:

- Determine if privately donated money was appropriately recorded and spent in accordance with donors' intended purposes.

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.

Donations Were Appropriately Recorded by the Foundations

We found almost all gift donations were assigned to the appropriate foundation gift account in accordance with the donors' intent. However, there were instances in our sample where this did not occur consistently at a couple institutions' foundations. Additionally, while most donations were properly recorded, there were some differences in how certain related processes were performed. Specifically, records were not always maintained to demonstrate gift acknowledgement letters or receipts were issued to donors for every gift. Improved recordkeeping will help ensure donors receive adequate documentation to serve as support for tax deductible donations.

Overall, our testing found 763 of 774 (99%) sampled donations at 7 institutions were properly recorded by the foundations in appropriate gift fund accounts at the institutions. This sample included \$116 million in donations received between July 1, 2017, and June 30, 2021. We confirmed the dollar value of the donation and the categorization in an appropriate gift fund aligned with the donation.

The population of donations we tested was judgmentally selected to include gift donations received of \$1,000 or more and represented 33% of the dollar value of the total donations during the scope of our testing. Additional details regarding the sample selection process can be found in our audit methodology in Appendix B starting on page 21.

Assignment of donations to the correct foundation gift fund account is important since the foundations accumulate the money donated for various restricted-purpose gifts in those specific accounts and transfer those funds to institutions periodically. For example, donations for a specific scholarship are transferred to

the institution in the semester that the recipients were awarded the scholarship. The institutions typically have gift fund accounts in their financial systems that match the same restricted purpose as the gift fund accounts that the foundations have.

Inconsistency in Providing Acknowledgement Letter to Donors

Adequate documentation associated with donations and accompanying donor wishes were generally retained to support transactions. However, in certain instances, foundations could not provide evidence that all donation acknowledgment letters were sent to donors. For 65 of 774 (8%) donations tested, letters or donation receipts were not available at 5 of 7 foundations. While it is possible these letters may have been sent to donors, the foundation may not have retained a copy. However, there was no evidence to support their existence in these cases. Foundation management at some of these locations indicated staff turnover in key positions over the years may have led to such oversight. Additionally, we noted inconsistencies in related recordkeeping practices.

We recognize there are situations where foundations do not need to issue an acknowledgment letter or gift receipt. For example, some donors wish to make their gift anonymous. Another instance would be a donor-directed gift through a third party, such as a donor advised fund, that provides the necessary tax receipts to the donor. We accounted for these situations during our donation testing by not considering these exceptions as there would not be an expectation of an acknowledgment or receipt. Exhibit 6 shows the foundations missing acknowledgement letters or gift receipts per sample size tested.

Missing Acknowledgment Letters **Exhibit 6**

Foundation	Total Sample Size	No Evidence of Gift Acknowledgement
College of Southern Nevada	110	26
Great Basin College	105	17
Nevada State College	85	0
Truckee Meadows Community College	85	2
University of Nevada, Las Vegas	150	5
University of Nevada, Reno	150	0
Western Nevada College	89	15
Totals	774	65

Source: Auditor prepared based on foundation records.

For federal income tax purposes, donors should have donation acknowledgment letters for backup of their tax-deductible donations. Per the Internal Revenue Service (IRS) requirements, donors can claim a tax deduction for a donation of \$250 or more if they have a timely and written acknowledgment of that donation from the organization. For tax purposes, this acknowledgment must include the amount of the donation. Furthermore, if the acknowledgement letter lists which specific fund the donation went to, it helps reassure the donor that their donation was appropriately allocated as intended.

Some institutions provide an acknowledgment letter, while others may provide a gift receipt. Both an acknowledgment letter or a gift receipt should contain the necessary tax information for donors. In the absence of an acknowledgment letter or gift receipt, donors may not have adequate documentation to support tax deductible donations. A lack of acknowledgment could also impact donors' desire to make additional contributions.

The NSHE Board of Regents' policies indicate foundations are to send donors timely acknowledgement of donations. At some foundations, donation acknowledgement letters or gift receipts were generated immediately after a donation, while at others they provided annual donation acknowledgment letters. Policies at the foundation level did not consistently address the nature, timing, or retention of these letters. Improved policies would help ensure donors are provided acknowledgement letters for gifts.

Recordkeeping Practices Could Be Improved at One Institution

During testing at CSN Foundation, we found for 7 of 110 (6%) samples there were errors between the donation information recorded in CSN Foundation's donor management software and the CSN Foundation's financial software. These errors were not seen at other institutions' foundations. CSN Foundation staff provided a reconciliation of the data from the two systems and were able to match the total donation dollar amounts over the 4-year period. However, we found discrepancies related to donor information between the two systems.

Some discrepancies were due to name mismatches or identifying the incorrect donor from the donation payment. This elevates the risk that the wrong individual is acknowledged for tax purposes. For example, in one instance the donor was entered as the bank name on the donation check. This led to the acknowledgement letter being sent to the bank for a \$10,000 donation when the correct donor should have been acknowledged instead. Because the foundation provides gift receipts and pledge reminders to donors, it is important that the foundation maintains accurate donor information. CSN Foundation's policies indicate verification of the donor information should have occurred before entering the information into the database. A more thorough reconciliation process between the two systems would benefit CSN Foundation and ensure that donor related information is accurate in both systems.

Furthermore, CSN Foundation staff could not provide support of donor intent in 10 of 110 (9%) samples. Because we could not establish donor intent, we could not verify the donation was allocated to the correct CSN Foundation gift fund in these instances. Documentation of donor intent is essential to ensuring that a donation is properly attributed to the correct gift fund.

Incorrect Gift Fund Allocation at One Institution

At GBC Foundation, we identified one instance where donated money was not applied to the correct gift fund in accordance with donor intent. In 2018, a donation of almost \$94,000 designated by the donor for a memorial scholarship endowment was assigned to an unrestricted GBC Foundation account. The funds in an unrestricted account could have been used for any purpose, which was inconsistent with the donor's intent. While this was an

isolated instance, the error was significant considering the size of the donation. During the audit, GBC Foundation staff indicated they would transfer the money to the correct gift fund. We verified this transfer occurred in October 2022.

Recommendations

1. Ensure the institutions' foundations have adequate policies and related practices governing the issuance and retention of acknowledgement letters or receipts for donor gifts.
2. Encourage the institutions' foundations' boards, where applicable, to verify key control processes are occurring, including reconciliation of donor management systems to financial software and retention of adequate supporting documentation establishing donors' intent.

Institutions Generally Expended Donated Funds Consistent With Donor Intent

We found institutions generally expended gift funds in accordance with donor intent. However, some institutions carried forward unspent gift funds for multiple years that possibly could be utilized through related active accounts or be repurposed for other uses if agreed upon by donors. Additionally, in a few instances, gift funds were expended in a manner that did not appear to align with donors' intent. During the scope of our audit, changes to one institution's practices appear to have corrected this issue. In other cases, documentation supporting expenditures lacked some supporting details.

Overall, our testing found 686 of 690 (99%) gift fund expenditures tested were appropriately spent in accordance with the intended purpose of the gift fund. This sample included expenditures totaling \$23 million spent between July 1, 2017, and June 30, 2021. Additionally, adequate documentation associated with the expenditures was retained to support the transactions for 680 (99%) of the expenditures in our sample.

The population of gift fund expenditures we tested was judgmentally selected to include expenditures of \$1,000 or more at seven institutions. Our sample size represented 11% of the total dollar value of gift fund expenditures during the scope of our testing. Additional details regarding the sample selection process can be found in our Audit Methodology in Appendix B starting on page 21.

Certain Gift Accounts Had No Activity for Years

At six institutions, we found that privately donated money went unutilized in certain accounts for multiple years. While some of these accounts may be saving funds for a future purpose, many did not have donation or expenditure activity for at least 5 years. Some institutions' gift funds would benefit from a routine review of stale accounts to identify opportunities to repurpose funds to other actively utilized accounts consistent with the donations' intended purpose. For example:

- At UNR, we identified \$2.3 million in gift account funds in 137 accounts with no donations or expenditures for a period of at least 3 years, as of June 30, 2022. Some of these accounts, totaling \$0.9 million, had no activity for at least 5 years. UNR policies indicate that the UNR Controller's Office would evaluate accounts with balances less than \$5,000 with no activity for 18 months to determine if it should be transferred or used for a similar purpose. However, this review has not occurred consistently.
- At UNLV, we identified \$1.1 million in gift account funds in 192 accounts with no donations or expenditures for a period of at least 3 years, as of June 30, 2022. Some of these accounts, totaling \$0.3 million, had no activity for at least 5 years. UNLV does not have policies related to identifying or evaluating gift funds with no activity.

Exhibit 7 shows our analysis of gift funds with unspent funds year over year as of June 30, 2022.

**Gift Fund Balance Analysis
Unutilized Balances as of June 30, 2022**

Exhibit 7

NSHE Institution	Unutilized Gift Fund Balance for 3 Years	Unutilized Gift Fund Balance for at Least 5 Years
College of Southern Nevada	\$ 343,856	\$ 152,046
Great Basin College	-	-
Nevada State College	41,747	17,958
Truckee Meadows Community College	58,460	34,079
University of Nevada, Las Vegas	1,115,099	367,954
University of Nevada, Reno	2,331,458	940,216
Western Nevada College	9,100	6,935
Totals	\$3,899,720	\$1,519,188

Source: Auditor prepared.

Note: The unutilized gift fund balance at GBC could not be determined because of the way gift funds were tracked in the institution's financial system. Other institutions separately account for expenditures by funding source, which is what allowed us to obtain a report of all gift fund related expenditures. However, at GBC we could not obtain a similar report because the funds were not accounted for in that way.

We would expect to see a reasonable number of balances carried forward from year to year due to the nature of restrictions or date of donation transfers to the institutions. However, we have concerns related to gift fund accounts going unused for years and the lack of consistent monitoring of these funds by the institutions.

The Board of Regents' policies require donor notification if the foundation plans to delay, for any reason, the use of the restricted gift for its intended purpose. Under specific circumstances, institutions can repurpose unused gift funds as long as the money is used for similar purposes to the original donors intent or must request a change in use by the donor. Some foundations have processes to consult with the Office of the Attorney General to go through legal means to make such changes. NSHE could provide additional guidance to individual institutions and foundations to ensure these gift funds are used within an appropriate amount of time.

Limited Number of Expenses Did Not Align With Donor Intent or Have Sufficient Supporting Documentation

The use of funds for a purpose other than that stipulated by the donor is ordinarily prohibited. If another use is deemed necessary, consent for using the funds in a different manner may be sought from the donor or may be altered in accordance with terms of the gift agreement or law, which may require court approval.

While 99% of donor funds were used in accordance with donor intent, we did find instances where this was not the case. At some institutions, we found a few instances where gift expenditures did not have sufficient supporting documentation or evidence the expenditure was in alignment with the intended purpose of the gift funds. In our assessment, these were not egregious deviations but warranted the attention of the institutions.

Scholarship Expenditures

At GBC, we found two instances where donations for Fall 2017 semester scholarships were transferred to the college, but we could not verify any students received scholarships during that semester for that scholarship. Due to turnover at the foundation, no one on staff had knowledge as to why this may have occurred.

At NSC, we found one instance where a donation was designated as a scholarship, but the expenditure was for a remodeling project. In this instance, NSC staff nor the NSC foundation staff could provide sufficient documentation that the expenditure was in line with the donor's intended purpose or that the repurposing of the funds was completed appropriately.

A small number of students at four different institutions did not meet scholarship criteria specified by the donor. At two institutions, three students did not meet financial need criteria as stipulated by the donor. Also, at two other institutions, five students did not meet minimum credit requirements as stipulated by the donor.

Expenditure Supporting Documentation

At UNLV, we identified three instances where there were issues related to documentation of a purchase order or contract for the expenditures in our sample. In two instances, the contract or

purchase order was not finalized prior to services occurring. Additionally, we found one instance where there was no record of a purchase order or contract related to the expenditure. UNLV policies require obtaining a purchase order before a service is provided.

Athletics Expenditures

At UNR, we found four instances in fiscal years 2018 and 2019 where seat premium donations for one sport were used to pay for game guarantees for a different sport. UNR Intercollegiate Athletics (ICA) Department staff indicated seating premium donations could be utilized for any sport at their discretion. However, the intent that the donation be utilized for the sport associated with the donation appeared clear from the donation form and per the acknowledgement letter to the donor. Due to an IRS rule change in 2018, foundation staff reported this type of donation is no longer accepted at that institution, and such funds are now donated to a general athletics gift fund.

Furthermore, control deficiencies within UNR's ICA Department resulted in a small number of transactions in our sample being processed without adequate supporting documentation. For example, at UNR, there were three expenditures for meals that did not list the specific team members or coaching staff that the meal was for or its intended purpose. We also found one instance where the receipts for ICA travel expense and event ticketing expense did not list the names of the individuals the expenditures were used for. The examples listed occurred in fiscal years 2018 and 2019.

As a result of a UNR Foundation internal audit in February 2020, the UNR Foundation requested that UNR's ICA Department provide the business purposes for the meals, the names of the individuals eating the meals, and also the itemized receipts for meals in order for the expenditure to come from gift funds. To further ensure compliance, UNR Foundation staff began reviewing each ICA expenditure. ICA policies were changed to mitigate the risk of control deficiencies occurring in the future.

We tested an additional sample of ICA expenditures at UNR in fiscal year 2022 and found that all expenditures had sufficient supporting documentation. Additional testing supported that the change in policy and practice was effective in improving supporting documentation.

Recommendation

3. Develop a policy requiring institutions to routinely review inactive gift accounts and identify opportunities to repurpose funds to actively utilized accounts when appropriate and allowable.

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.



81st Session (2021)

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.

20 ~~~~~ 21



81st Session (2021)

Source: Nevada Legislature.

Appendix B

Audit Methodology

To gain an understanding of the Nevada System of Higher Education (NSHE) institution foundations, we reviewed Board of Regent policies, NSHE policies, foundation policies, and Internal Revenue Service code and regulations. We also interviewed foundation and institution staff and reviewed documentation related to private donations.

Our audit included a review of seven institution foundations' 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 objective of the entity. The scope of our work on controls related to the sources and uses of money privately donated to certain NSHE institutions included the following:

- Design control activities (Control Activities);
- Implement control activities through policy (Control Activities);
- Establish structure, responsibility, and authority (Control Environment); and
- Perform Monitoring Activities (Monitoring).

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

We conducted a risk assessment of the various foundations and associated foundations. We then judgmentally selected seven NSHE foundations for further testing based on total amount of donations received during our audit scope and level of risk.

For our analysis of foundation donations, we first obtained a list of donations from fiscal years 2018 through 2021 from each of the institution foundations. To ensure completeness of the donation list provided by the foundation, we compared deposit detail from bank statement information to the donation list. To ensure the donation list was accurate, we performed accuracy testing by comparing donation list information to the donation information in the donor management software at each foundation. We then performed an analysis of the population data resulting in a judgmentally selected threshold of donations of \$1,000 or more. We then generated random samples and judgmental samples based on donation amount, donation fiscal year, donation fund, gift type, and total donor contribution amounts.

Using each institutions' donor management software, we searched for each donor by name and found the specific gift in our sample. We then obtained documentation associated with the donation such as the following: donation receipt forms, donor agreements, check images, letters from the foundation acknowledging the gift, and confirmation of which funds the money went to. We reviewed the documents to ensure that the foundation documented the donor's intent for each gift and if the foundation provided the donor with a gift receipt or an acknowledgment letter. We then also looked at the institutions' financial software to confirm the donation was deposited into the correct gift fund in accordance with donor's wishes. The following table shows our donation testing sample sizes and total sample amounts.

Donation Testing Sample Sizes

Foundation	Total Population	Modified Population ⁽¹⁾	Random Sample Size	Judgmental Sample Size	Total Sample Size	Total Sample Amounts
College of Southern Nevada	3,486	481	100	10	110	\$ 7,230,918
Great Basin College	1,668	263	100	5	105	6,988,648
Nevada State College	4,115	235	80	5	85	9,703,578
Truckee Meadows Community College	2,345	486	80	5	85	4,574,766
University of Nevada, Las Vegas	141,671	5,894	120	30	150	43,255,749
University of Nevada, Reno	123,898	7,385	120	30	150	40,552,945
Western Nevada College	5,955	407	80	9	89	3,891,105
Totals	283,138	15,151	680	94	774	\$116,197,709

Source: Auditor prepared based on foundation donation records.

⁽¹⁾ Judgmentally selected threshold of donations of \$1,000 or more.

For our analysis of gift fund expenditures, we obtained a list of expenditures from each institution, except Great Basin College (GBC), from fiscal years 2018 through 2021 using the NSHE financial system used by all NSHE institutions. Data reliability of the NSHE financial system was performed as part of our NSHE audit on Self-Supporting and Reserve Accounts (LA24-03). Auditors determined the data was sufficiently reliable for testing purposes. We then performed an analysis of the population data resulting in a judgmentally selected threshold of expenditures of \$1,000 or more. Next, we generated random samples and judgmental samples based on expenditure amount, gift fund, and spend category. For each sample, we downloaded any expenditure supporting documentation from NSHE's financial software. We reviewed the documentation to ensure the expenditure was appropriate within the parameters of the gift fund restriction and whether there was sufficient supporting documentation related to each expenditure.

For expenditures at GBC, we had to manually generate our population of expenditures by listing checks and transfers made by the GBC Foundation to GBC. We then used the list we compiled to generate the expenditure population and performed an analysis of the population data. We performed further testing as described in the paragraph above as we did for all institutions.

At University of Nevada, Reno, we conducted additional testing of fiscal year 2022 intercollegiate athletic expenditure transactions. We judgmentally selected 25 from a population of 2,326 intercollegiate athletic expenditure transactions. Judgment was based on expenditure amount and spend category. We performed the same testing for appropriateness of expenditures within the gift fund parameters and whether the expenditure had sufficient supporting documentation as we did for the other expenditures sampled. Our expenditure testing was not designed to provide assurance regarding compliance with NCAA requirements.

The following table shows the expenditure testing sample sizes and total sample amounts:

Expenditure Testing Sample Sizes

Foundation	Total Population	Modified Population⁽¹⁾	Random Sample Size	Judgmental Sample Size	Total Sample Size	Total Sample Amounts
College of Southern Nevada	2,096	638	60	15	75	\$ 4,577,075
Great Basin College	715	222	55	5	60	2,893,365
Nevada State College	9,499	911	80	6	86	\$794,054
Truckee Meadows Community College	2,804	696	80	4	84	\$408,682
University of Nevada, Las Vegas	130,805	19,129	120	30	150	7,284,254
University of Nevada, Reno	130,830	17,648	120	30	150	5,862,774
Western Nevada College	3,031	852	80	5	85	1,641,187
Totals	279,780	40,096	595	95	690	\$23,461,391

Source: Auditor prepared.

⁽¹⁾ Judgmentally selected threshold of expenditures of \$1,000 or more.

For expenditures that were related to scholarships for students, we obtained the scholarship agreement which outlined the donor stipulated criteria for award eligibility. We then obtained access to student records at each institution to determine if students met verifiable donor criteria outlined in each scholarship agreement. Scholarship criteria varied greatly. Some examples of common criteria include grade point average, course of study, and financial need. Criteria we did not test for included items like intention of student or self-reported data from students. We could only verify

donor stipulated criteria contained in the student record software provided by each institution.

For 897 students benefited by 231 scholarship expenditures, we verified students met verifiable donor stipulated criteria by using the institution's student record software. Some scholarship expenditures had a large number of associated students receiving the scholarship funds. When appropriate, we judgmentally selected a sample of the total students receiving scholarships to verify they met donor stipulated scholarship criteria. We tested at least three students from each scholarship expenditure in the order of recipient listing as provided by the scholarship office or foundation. Of the 1,266 total number of associated students, we tested 897 (71%) to ensure they met verifiable donor stipulated criteria. The following table shows the scholarship testing sample sizes.

Scholarship Testing Sample Sizes

Foundation	Number of Scholarship Expenditures in Sample	Total Students Receiving Scholarships⁽¹⁾	Judgmental Selection of Students Receiving Scholarships	Number of Scholarship Criteria Tested
College of Southern Nevada	39	80	72	139
Great Basin College	25	252	189	72
Nevada State College	26	120	85	74
Truckee Meadows Community College	50	385	184	168
University of Nevada, Las Vegas	25	121	121	89
University of Nevada, Reno	27	115	115	83
Western Nevada College	39	193	131	147
Totals	231	1,266	897	772

Source: Auditor prepared.

⁽¹⁾ This number is not counting unique individuals as one student may have had multiple scholarships.

For our analysis of gift fund balances, we downloaded gift fund balance reports from NSHE's financial software for fiscal years 2018 through 2022 and then performed analysis to identify gift funds that have had no activity for multiple years.

For all donation and expenditure testing performed, we met with staff from foundations and institutions and discussed questions and concerns of testing exceptions.

We used nonstatistical audit sampling for our audit work, which for these analyses was the most appropriate and cost-effective method for concluding our audit objective. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provided sufficient, appropriate audit evidence to support the conclusions in our report. We did not project the exceptions to the population because tests were not intended to be projected or items were selected judgmentally. Our samples included both randomly and judgmentally selected items.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In accordance with NRS 218G.230, we furnished a copy of our preliminary report to the Chancellor of the Nevada System of Higher Education. On December 16, 2022, we met with agency officials to discuss the results of the audit and request a written response to the preliminary report. That response is contained in Appendix C, which begins on page 27.

Contributors to this report included:

Zackary Fourgis, MBA
Deputy Legislative Auditor

Michelle Kiehne, MBA
Deputy Legislative Auditor

Jennifer Otto, MPA
Audit Supervisor

Shannon Riedel, CPA
Chief Deputy Legislative Auditor

Appendix C

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 Institution Foundations

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 institution Foundations.

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

RECOMMENDATIONS AND RESPONSES

Recommendation 1: Ensure the institutions' foundations have adequate policies and related practices governing the issuance and retention of acknowledgement letters or receipts for donor gifts.

Response: NSHE agrees with and accepts this recommendation.

NSHE is in the process of collecting detailed corrective actions from institution foundations to ensure policies are adequate surrounding acknowledgement letters or gift receipts. This will include how compliance and performance will be measured, and documentation of a responsible party.

Recommendation 2: Encourage the institutions' foundations' boards, where applicable, to verify key control processes are occurring, including reconciliation of donor management systems to financial software and retention of adequate supporting documentation establishing donors' intent.

Response: NSHE agrees with and accepts this recommendation.

NSHE will encourage the institutions' foundation boards to verify key control processes, such as review of donor records and supporting documentation for accuracy in the donor management system, are operating effectively.

Recommendation 3: Develop a policy requiring institutions to routinely review inactive gift accounts and identify opportunities to repurpose funds to actively utilized accounts when appropriate and allowable.

Response: NSHE agrees with and accepts this recommendation.

NSHE is coordinating with the applicable institutions to develop and/or revise policies to ensure a timely and routine review occurs of inactive gift accounts, in the spirit of identifying opportunities for repurposing funds to actively utilized accounts, if appropriate. This will include an evaluation of time period and dollar amount thresholds.

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

<u>Recommendations</u>	<u>Accepted</u>	<u>Rejected</u>
1. Ensure the institutions' foundations have adequate policies and related practices governing the issuance and retention of acknowledgement letters or receipts for donor gifts.....	<u>X</u>	<u> </u>
2. Encourage the institutions' foundations' boards, where applicable, to verify key control processes are occurring, including reconciliation of donor management systems to financial software and retention of adequate supporting documentation establishing donors' intent	<u>X</u>	<u> </u>
3. Develop a policy requiring institutions to routinely review inactive gift accounts and identify opportunities to repurpose funds to actively utilized accounts when appropriate and allowable	<u>X</u>	<u> </u>
TOTALS	<u>3</u>	<u> </u>