NEVADA SYSTEM OF HIGHER EDUCATION
SYSTEM OFFICE
ACCOUNT BALANCE ANALYSIS
Internal Audit Report
July 1, 2008 through June 30, 2013

GENERAL OVERVIEW

The System Office of the Nevada System of Higher Education (NSHE) is comprised of five functional units including System Administration, System Computing Services (SCS), Sponsored Programs Office, Nevada Industry Excellence, and University Press. A total of 114 self-supporting accounts have been assigned to the five units. The intent of this review was to examine the balance and activity within the accounts for reasonableness.

SCOPE OF AUDIT

The Internal Audit Department has completed an analysis of self-supporting accounts maintained by the System Office of the Nevada System of Higher Education (NSHE) for the period of July 1, 2008 through June 30, 2013.

Our review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included tests of the accounting records and other auditing procedures, as we considered necessary. The tests included, but were not necessarily limited to, a review of self-supporting account balances and activity during the five year period.

In our opinion, we can be reasonably assured that the balance and activity within the System Office's self-supporting accounts is satisfactory; however, the following recommendations would further improve the oversight of these accounts.

ACCOUNT ANALYSIS

A review of the System Office's self-supporting account activity was performed for the five year period ending June 30, 2013. The accounts were categorized by functional unit and are summarized below. The accounts were also examined for large fluctuations or other activity that would help explain the overall trend in account balances over the five year period. We subsequently requested explanations from the responsible personnel for any such accounts identified. The explanations are included after each unit summary and are provided for informational purposes.

1. SYSTEM ADMINISTRATION

System Administration	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$ 27,899,308	$ 16,973,339	$ 8,502,253	$ 10,836,704	$ 9,981,274
Transfers In	191,230	122,892	26,609	250,823	246,144
Revenues	4,438,245	4,379,578	13,403,981	9,753,290	11,062,565
Transfers Out	256,389	173,245	26,609	362,283	470,199
Expenditures	15,299,055	12,800,311	11,069,530	10,497,260	10,444,795
Ending Balance	$ 16,973,339	$ 8,502,253	$ 10,836,704	$ 9,981,274	$ 10,374,989

A total of 72 self-supporting accounts have been assigned to System Administration. Overall, the account balances decreased significantly over the five year period. This was due to the expenditure of funds related to implementation of the first phase of the iNtegrate project. The balance of funds in the iNtegrate Project account decreased from approximately $20.7 million to $895,000 over the five year period. We also noted a significant increase in revenues in fiscal years 2010-2011, 2011-2012, and 2012-2013. We were informed the increased revenue in fiscal year 2010-2011 was due to a $6 million allocation of funds from worker's compensation liability reserves to the iNtegrate project account. The increases in fiscal years 2011-2012 and 2012-2013 were due to distributions of $5.9 million and $6.3 million, respectively, from the worker's compensation liability fund to an account to pay worker's compensation claims. Prior to fiscal year 2011-2012, the claims were paid directly from the fund.

Other accounts with significant changes in account balance included the following.

- *Board Administration*

	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$1, 773,581				
Ending Balance	$1, 889,181	$3,047,432	$3,165,343	$3,702,427	$3,917,877

The account balance increased significantly over the five year period. We were informed the account is funded by an annual assessment of NSHE institutions, in accordance with Board of Regents policy. The assessment also provides funding for the System Administration operating account. According to System Office personnel, funds received from the assessment are first allocated to the System Administration account to cover expected expenditure activity for the year. The excess funds are then distributed to the Board Administration account. The increase in the Board Administration account balance occurred from the spending reductions that were implemented as a result of system wide budget cuts. As less money was needed to cover expenditures in the System Administration account, additional funding was available and distributed to the Board Administration account. We were informed the campus assessment has been adjusted downward over the last five years to compensate for the reduced expenditure activity.

- *System Administration*

	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$ 751,617				
Ending Balance	$1,044,144	$204,554	$595,283	$575,450	$102,965

The account balance decreased significantly over the five year period. As mentioned above, this account is funded primarily from the campus assessment. We were informed the account is budgeted each year with the intent that the balance at year end will be zero. At the beginning of the five year period, a balance had accumulated. The balance has been spent down over time.

- *Chancellor's Special Projects*

	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$25,000				
Ending Balance	$25,000	$25,000	$12,123	$9,711	$727,455

The account balance increased significantly over the five year period due to the distribution of investment income to the account starting in fiscal year 2012-13. We were informed the distribution was the result of a memorandum of understanding between the System Office and the University of Nevada, Reno (UNR) whereby the System Office would retain its portion of investment income from the operating pool. In exchange, the System Office assumed certain accounting functions that had been performed by UNR.

- *Contingency*

	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$1,078,762				
Ending Balance	$1,116,298	$1,116,298	$1,116,298	$1,116,298	$1,116,298

The account had a large balance but no expenditure activity over the five year period. The Contingency account exists to meet Board of Regents policy which states 30% of the prior year's revenue is to be maintained in a reserve for shortfalls and emergencies. The amount maintained in the account as of June 30, 2013 appears reasonable.

2. SYSTEM COMPUTING SERVICES

System Computing Services	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$ 730,246	$ 766,879	$ 1,414,124	$ 1,578,025	$ 2,080,084
Transfers In	-	5,500	2,000	1,800	-
Revenues	266,407	946,261	461,963	1,349,827	237,051
Transfers Out	-	500	2,000	1,800	-
Expenditures	229,774	304,016	298,062	847,768	103,543
Ending Balances	$ 766,879	$ 1,414,124	$ 1,578,025	$ 2,080,084	$ 2,213,592

A total of 32 self-supporting accounts have been assigned to SCS. The account balances increased significantly over the five year period. The overall increase in the account balances, as well as the increase in revenue noted in fiscal year 2009-10, is due primarily to the following accounts.

- *Network Services, State*

	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$31,911				
Ending Balance	$39,635	$183,990	$345,974	$498,013	$663,736

This account reflects fees collected from various state agencies for use of SCS equipment and interactive video connectivity services. We were informed the balance in the account has increased in order to reserve funds for anticipated large scale purchases and upgrades of video and network equipment.

- *Image Software Licensing*

	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$100				
Ending Balance	$100	$100	$33,088	$22,929	$189,354

This account was established to monitor funds collected from NSHE institutions for purchases of image software licenses. We were informed that at the end of fiscal year 2012-13, funds had not been collected from all campuses so payment for software licenses was made from another account. After the funds were received from the institutions, an accounting entry was made to move the expense to the Image Software Licensing account. The balance of the account was approximately $100, as of the close of audit fieldwork in fiscal year 2013-14.

- *Computer Administrative Systems*

	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$119,371				
Ending Balance	$187,424	$219,249	$218,950	$296,591	$365,899

This account is used to monitor funds collected from NSHE institutions for the institutions' owned and operated equipment that is located in the SCS Regional Data Centers. We were informed the account balance has increased in order to reserve funds for anticipated large-scale maintenance and enhancement costs associated with the equipment.

- *Maintenance/Licensing Clearing*

	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$0				
Ending Balance	$0	$252,350	$252,350	$254,150	$164,777

This account was established in fiscal year 2009-10 to monitor funds collected from NSHE institutions for the purchase of general purpose software licenses. SCS purchases licenses as a system for a discount and to reduce duplicative work involving license negotiation. We were informed other funds were available and used to pay for the software purchases. As a result, the majority of receipts collected in fiscal year 2009-10 remained in the account at the end of the five year period. No other receipts were collected from the institutions during the five year period.

One other fluctuation noted was the increase in revenue and expenditure activity in fiscal year 2011-2012. This was caused by a transfer of just over $1 million from NSHE campuses to an SCS account to help pay for recurring costs associated with the iNtegrate project. As a result of this funding, there was a significant increase in iNtegrate related expenditures during the year.

3. SPONSORED PROGRAMS OFFICE

Sponsored Programs Office	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**
Beginning Balance	$ 183,527	$ 425,638	$ 359,415	$ 498,822	$ 548,337
Transfers In	-	6,200	16,835	-	-
Revenues	326,064	192,302	266,939	181,491	188,891
Transfers Out	-	6,200	16,835	-	-
Expenditures	83,953	258,525	127,532	131,976	150,244
Ending Balances	$ 425,638	$ 359,415	$ 498,822	$ 548,337	$ 586,984

A total of five self-supporting accounts have been assigned to the Sponsored Programs Office. The account balances increased significantly over the five year period. The increase is due primarily to the following account.

- *Indirect Cost Recovery*

	FY09	**FY10**	**FY11**	**FY12**	**FY13**
Beginning Balance	$182,485				
Ending Balance	$227,446	$324,267	$466,935	$522,593	$565,960

We were informed the increase has been due to the growth in awards received by the Sponsored Programs Office and the corresponding amount of indirect cost revenue collected. The funds in the account are expected to be used to cover increased rent and other office operating costs.

4. NEVADA INDUSTRY EXCELLENCE

Nevada Industry Excellence	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$ 140,720	$ 107,634	$ 140,931	$ 169,702	$ 263,974
Revenues	(17,904)	50,995	49,040	105,406	95,267
Expenditures	15,182	17,698	20,269	11,134	17,636
Ending Balances	$ 107,634	$ 140,931	$ 169,702	$ 263,974	$ 341,605

A total of three self-supporting accounts have been assigned to Nevada Industry Excellence (NVIE). The account balances increased modestly over the five year period. The increase is due primarily to the following account.

- *Indirect Cost Recovery*

	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$ 0				
Ending Balance	$ 0	$46,438	$74,960	$169,232	$247,070

We were informed the increase is due to an effort by NVIE to increase unobligated funding, such as the funds maintained in the Indirect Cost Recovery account, to cover six months of operating expenses as recommended by the NVIE Advisory Board. This has been necessitated by a decrease in the amount of funds NVIE may carry forward from year to year in other program accounts due to contractual changes with sponsors. One other fluctuation noted was the deficit in revenues recognized in fiscal year 2008-09. This was caused by a reversal of revenue that was posted incorrectly to an NVIE self-supporting account in fiscal year 2007-08.

5. UNIVERSITY PRESS

University Press	FY09	FY10	FY11	FY12	FY13
Beginning Balance	$ 615,289	$ 756,253	$ 831,935	$ 693,325	$ 702,044
Transfers In	4,000	4,120	-	1,000	-
Revenues	478,525	439,783	405,841	251,453	328,858
Transfers Out	4,000	-	-	1,000	10
Expenditures	337,561	368,221	544,451	242,734	343,615
Ending Balances	$ 756,253	$ 831,935	$ 693,325	$ 702,044	$ 687,277

A total of two self-supporting accounts have been assigned to the University Press. The account balances have remained relatively flat over the five year period with no significant fluctuations noted.

ACCOUNT BALANCES

During this review, we noted the balance of two Sponsored Programs Office accounts and one Nevada Industry Excellence account is inaccurate. This occurred due to different accounting methods that were utilized, over the five year period, to calculate the ending balance of the accounts within the financial accounting system. The balance of one of the accounts, as of June 30, 2013, was understated by approximately $185,000 in the financial accounting system. The inaccuracy of the other two accounts was much less material.

We recommend the account balances be corrected. In the future, we recommend greater care be taken to ensure account balances are accurately reflected in the financial accounting system.

Institution Response

<u>Correction:</u> The balances of two Sponsored Programs Office accounts and one Nevada Industry Excellence account have been corrected and the appropriate coding structures have been implemented in the Advantage financial system to ensure that the account balances are displayed correctly in the future.

<u>Prevention and Monitoring:</u>

The Sponsored Programs Office and the Nevada Industry Excellence Office are now aware of the requirement to keep the correct coding structures in the Advantage financial system. Their accounts will be tested periodically for assurance that Advantage is reporting their cash balances correctly.

<u>INACTIVE ACCOUNTS</u>

We noted eight SCS accounts that had no activity during the five year period. We were subsequently informed that a request had been made to the UNR Controller's Office to close the accounts. As of the close of the audit, however, the accounts had not been closed.

We recommend SCS personnel follow-up with UNR to close the accounts.

Institution Response

<u>Correction:</u> The eight inactive SCS accounts identified were closed on March 14, 2014.

<u>Prevention and Monitoring:</u>

SCS is now aware of the requirement to close inactive accounts. Their accounts will be reviewed periodically to identify and close inactive accounts.

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

Reno, Nevada
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