

NEVADA SYSTEM OF HIGHER EDUCATION  
CHANGE IN LEADERSHIP AUDIT  
Internal Audit Report  
July 1, 2015 through June 30, 2016

GENERAL OVERVIEW

The Internal Audit Department has performed a change in leadership, or “exit” audit, each time a president leaves office. In keeping with this standard, a similar audit was performed for the recent vacancy in the position of chancellor. The audit focuses on areas for which the chancellor is both directly and indirectly responsible, as noted in the Scope of Audit section below. The chancellor has high level responsibility over the Nevada System of Higher Education (NSHE) and its institutions as well as more direct authority over the System Office, which is comprised of System Administration, System Computing Services, and the Sponsored Programs Office, also known as EPSCoR.

SCOPE OF AUDIT

The Internal Audit Department has completed a Change in Leadership audit of the chancellor of the Nevada System of Higher Education (NSHE). The audit was conducted for the period of July 1, 2015 through June 30, 2016.

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, these areas.

1. Testing System Office expenditures, including the chancellor’s host, operating and travel expenses for reasonableness and compliance with related policies.

2. Reviewing the System Office's financial accounts to determine whether deficit balances exist and the reason for the deficits.
3. Reviewing contracts signed by the chancellor for compliance with NSHE policies.
4. Reviewing pending litigation filed against NSHE to determine materiality of legal issues.
5. Examining and testing equipment inventory and the chancellor's leave records for proper accountability.
6. Reviewing capital projects initiated by the System Office and the chancellor.

In our opinion, we can be reasonably assured that the System Office operated in a satisfactory manner during the audit period and that no material deficiencies were noted. However, implementation of the following recommendations would provide opportunities to further improve processes.

## EXPENDITURES

The Internal Audit Department reviewed a sample of 111 expenditures that were charged to System Office accounts during the audit period. A variety of operating transactions were selected as well as the chancellor's hosting and travel expenditures. The expenditures were examined for proper supporting documentation and approval, reasonableness, and compliance with established purchasing and other required procedures. Of the 111 expenditures, no exceptions were noted with 102. The following exceptions were noted with the 9 remaining items.

1. One expenditure involved payment for consulting services. We noted the agreement that was completed for the transaction did not adequately address the scope of work that was to be performed.

- What will be done to avoid the identified problems and issues in the future; **System Administration concurs with the recommendation and has taken corrective action, greater care will be taken during the preparation and review of consulting services contracts to ensure the scope of work accurately reflects the project needs.**
  - How compliance and future good management and practice will be measured, monitored and assured; **Legal Affairs is reviewing the Independent Contractor (IC) contract and will advise System Administration (SA) departments on the use of the Standard IC Contract in PG&M. Documents will route through the finance and legal office for review, prior to final submission to purchasing or accounts payable office.**
  - Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Department Vice Chancellor**
  - When the measures will be taken and on what schedule compliance and good practice will be secured; **Changes communicated to Chancellor's Cabinet on 12/20/16.**
  - How compliance and performance will be documented for future audit management and performance review; **same as note above.**
2. Two expenditures involved payment of consultants' travel expenses, neither of which was substantiated with receipts. We noted one of the consulting agreements did not address reimbursement of travel expenses. The other agreement provided for the reimbursement of the consultant's travel expenses but did not specify whether receipts were required to be submitted or whether payment of such expenses was subject to NSHE travel reimbursement rates, as is customary.

For items one and two, we recommend contracts for consulting and/or professional services provide sufficient detail regarding the scope of work and services to be performed as well as reimbursement of travel expenses.

#### **Institution Response**

- What will be done to avoid the identified problems and issues in the future; **System Administration concurs the current policy regarding consultant travel does not address receipts or per diem amounts, and is vague with regard to documentation and the process of consultant travel reimbursement. The Vice Chancellor of Legal and Finance are reviewing best practices and will update the IC policy in the PG & M in the spring of 2017.**
- How compliance and future good management and practice will be measured, monitored and assured; **Legal Affairs and Finance are reviewing the current policy for best practices.**

- Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Department Vice Chancellor**
- When the measures will be taken and on what schedule compliance and good practice will be secured; **Policies currently being reviewed.**
- How compliance and performance will be documented for future audit management and performance review; **Legal Affairs is reviewing NSHE contract forms and policies.**

3. On three occasions, purchase orders were completed after the fact, that is, after services were provided.

We recommend that purchase requisitions be completed and submitted to the Business Center North (BCN) Purchasing Department in advance of purchases, in accordance with established purchasing procedures.

**Institution Response**

- What will be done to avoid the identified problems and issues in the future; **System Administration concurs with the recommendation and has taken corrective action and greater care will be taken during the preparation of purchasing requisitions.**
- How compliance and future good management and practice will be measured, monitored and assured; **Advise department personnel of purchasing policy and the importance of processing documents in an appropriately and timely manner. Reference BCN purchasing webpage.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Department Vice Chancellor**
- When the measures will be taken and on what schedule compliance and good practice will be secured; **Immediately.**
- How compliance and performance will be documented for future audit management and performance review; **as noted above.**

4. One expenditure was paid to an independent contractor for landscaping services. We noted the documentation completed for the transaction indicated the contractor's worker's compensation insurance expired prior to the end of the contract period.

We recommend greater care be taken to ensure insurance coverage is active for the duration of the agreement.

**Institution Response**

- What will be done to avoid the identified problems and issues in the future; **System Administration concurs with the recommendation and has taken corrective action and greater care will be taken during the review of support documents.**
  - How compliance and future good management and practice will be measured, monitored and assured; **Advise staff of the importance or reviewing all documentation including effective dates.**
  - Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Department Vice Chancellor**
  - When the measures will be taken and on what schedule compliance and good practice will be secured; **as noted above greater care will be taken during review of documentation and insurance that will expire before the end of the contract will be noted by the Department and reviewed as necessary with the consultant.**
  - How compliance and performance will be documented for future audit management and performance review; **as noted above**
5. One expenditure was not approved by an authorized account signer.

We recommend expenditures be approved by authorized personnel.

#### **Institution Response**

- What will be done to avoid the identified problems and issues in the future; **System Administration concurs with the recommendation and has taken corrective action and greater care will be taken during the review of documents.**
  - How compliance and future good management and practice will be measured, monitored and assured; **greater care will be taken during the review of payment documents.**
  - Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Department Vice Chancellor**
  - When the measures will be taken and on what schedule compliance and good practice will be secured; **Immediately, signature lines will be carefully reviewed by department and finance personnel.**
  - How compliance and performance will be documented for future audit management and performance review; **same as above.**
6. For one hosting transaction reviewed, the Host Expense Documentation and Approval form did not include a complete list of attendees.

We recommend hosting documentation be properly completed and submitted for processing.

#### **Institution Response**

- What will be done to avoid the identified problems and issues in the future; **System Administration concurs with the recommendation and has taken corrective action and greater care will be taken during the review of support documents. Staff has been advised that all hosting documents must be filled out completely.**
- How compliance and future good management and practice will be measured, monitored and assured; **SA in establishing a checklist to assist department personnel when submitting hosting documents.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Department Vice Chancellor**
- When the measures will be taken and on what schedule compliance and good practice will be secured; **Immediately.**
- How compliance and performance will be documented for future audit management and performance review; **as noted above.**

## CONTRACTS

The Internal Audit Department selected a sample of 21 contracts that were signed by the chancellor during the audit period. The contracts were then obtained from the NSHE Office of Legal Affairs and were reviewed to determine whether they were completed and approved in accordance with NSHE contract policies. The following exceptions were noted.

1. One contract involved a modification to an existing lease of office space by an NSHE entity. Included with the modification was the original lease agreement. We noted the original lease exceeded five years in length and \$500,000 but was not approved by the Board of Regents, as required.

We recommend that long-term leases be approved by the Board of Regents.

### **Institution Response**

- What will be done to avoid the identified problems and issues in the future; **the policy was unclear, clarification to the policy is complete and the campus has been advised of the changes.**
- How compliance and future good management and practice will be measured, monitored and assured; **Legal Affairs is reviewing the current policy.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **will continue to be a work in process**
- When the measures will be taken and on what schedule compliance and good practice will be secured; **same as noted above.**

2. Eleven of the 21 contracts were only signed by NSHE personnel and did not include signatures of the other parties with whom NSHE was entering the agreements.

We recommend that fully executed contracts be requested and maintained by the Office of Legal Affairs.

### **Institution Response**

- What will be done to avoid the identified problems and issues in the future; **Legal Affairs will maintain fully executed copies of Institution Contracts.**
- How compliance and future good management and practice will be measured, monitored and assured; **System Administration will maintain a copy of all Institution contracts requiring the Chancellor's approval.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Vice Chancellor Legal Affairs**
- When the measures will be taken and on what schedule compliance and good practice will be secured; **As noted above best practice will be exercised in maintaining the Institution Contracts.**
- How compliance and performance will be documented for future audit management and performance review; **as noted.**

3. During this review, we noted chapter five of the NSHE Procedures and Guidelines

Manual (PGM) contains inaccurate language related to long-term leases requiring Board of Regents approval. For example, the PGM defines a long-term lease as greater than four years, instead of five as stated in the Board of Regents Handbook. The PGM also states Board approval of long-term leases applies only to leases of real property that is owned by NSHE. The Board of Regents Handbook requires Board approval for all long-term leases, whether NSHE is the tenant or landlord.

We recommend the PGM be updated to reflect the correct language regarding long-term leases.

## **Institution Response**

- What will be done to avoid the identified problems and issues in the future; **although updates have occurred in the PG&M, Legal Affairs continues to update and clarify policy.**
- How compliance and future good management and practice will be measured, monitored and assured; **continues to be work in progress.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Vice Chancellor Legal Affairs.**
- When the measures will be taken and on what schedule compliance and good practice will be secured; **As noted Legal Affairs is working on clarifying the verbiage of the currently policy.**
- How compliance and performance will be documented for future audit management and performance review; **Same as above.**

## LEAVE RECORDS

The leave records of the chancellor were reviewed during the audit period for completeness and proper record keeping procedures. The following exceptions were noted.

1. On two occasions, annual leave taken was not recorded correctly in the leave keeping system. As a result, unused annual leave was overstated by one day upon the chancellor's separation.
2. On three occasions, sick and annual leave taken was not approved and/or recorded in the leave keeping system in a timely manner.
3. On one occasion, annual leave taken was not supported by documentation of the leave request and approval.

For items one through three, we recommend greater care be taken to ensure leave is properly approved and recorded in the leave keeping system and that leave documentation is maintained.



### **Institution Response**

- What will be done to avoid the identified problems and issues in the future; **System Administration concurs with the recommendation and the Chancellor's leave approval and tracking has been moved to iLeave as of January 2017.**
- How compliance and future good management and practice will be measured, monitored and assured; **The Chancellor and Board Chairman will use the iLeave system to approve leave.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Chancellor**
- When the measures will be taken and on what schedule compliance and good practice will be secured; **Has been implemented.**
- How compliance and performance will be documented for future audit management and performance review; **as noted above.**

### **EQUIPMENT**

A review of the equipment inventory assigned to the System Administration Offices in Reno and Las Vegas was performed to determine whether items listed on the equipment inventory reports were physically present and whether there were other items that met the \$5,000 capitalization threshold that were not included on the reports. The following exceptions were noted.

1. Two equipment items listed on the equipment inventory report were not located in the System Administration Office. We were informed the items are old equipment and are now under the control of System Computing Services (SCS).

We recommend these items be transferred from System Administration's equipment inventory to SCS. Alternatively, we recommend the equipment be salvaged if it is of no further use.

### **Institution Response**

- What will be done to avoid the identified problems and issues in the future; **Equipment transfer or surplus forms will be submitted to remove the equipment from the inventory form. Assessment of equipment no longer of useful service will be sent to surplus.**

- How compliance and future good management and practice will be measured, monitored and assured; **Refresher of the procedures and guidelines will be shared with staff and best practices enforced.**
  - Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Executive Assistant North, Executive Assistant South.**
  - When the measures will be taken and on what schedule compliance and good practice will be secured; **Immediately and each time equipment is out of service, removed, or moved a transfer form will be submitted.**
  - How compliance and performance will be documented for future audit management and performance review; **A physical review of equipment in System Administration will be conducted during our annual inventory process. Update and maintain the sensitive equipment list throughout the year.**
2. Six equipment items were observed in the System Administration Office in Reno that were not included on the equipment inventory report.

We recommend a determination be made as to whether these items meet the \$5,000 threshold for inclusion on the equipment inventory report. We recommend any such equipment be included in the fixed assets system and that asset tags be affixed to the equipment. We also recommend consideration be given for separately tracking equipment items that fall under \$5,000.

### **Institution Response**

- What will be done to avoid the identified problems and issues in the future; **Two CODEC machines were purchased and installed by SCS and SA is researching to verify that equipment inventory tags are required. Equipment inventory tags requested for the other four items.**
- How compliance and future good management and practice will be measured, monitored and assured; **Staff member overseeing SA inventory as noted above will verify that all required tags are affixed when equipment is delivered and installed.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Executive Assistant North and Executive Assistant South.**
- When the measures will be taken and on what schedule compliance and good practice will be secured; **Immediately. By performing an annual physical inventory of both our fixed assets and sensitive equipment.**
- How compliance and performance will be documented for future audit management and performance review; **as noted above.**

3. Two equipment items listed on the equipment inventory report did not have asset tags.

We recommend that asset tags be obtained from the Business Center North (BCN)

Purchasing Department and affixed to the equipment.

#### **Institution Response**

- What will be done to avoid the identified problems and issues in the future; **Replacement equipment inventory tags will be requested and affixed.**
- How compliance and future good management and practice will be measured, monitored and assured; **staff member overseeing SA inventory will verify that all required tags are affixed when equipment is delivered and installed.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Executive Assistant North and Executive Assistant South.**
- When the measures will be taken and on what schedule compliance and good practice will be secured; **Immediately. By performing an annual physical inventory of both our fixed assets and sensitive equipment.**
- How compliance and performance will be documented for future audit management and performance review; **as noted above.**

4. For two equipment items, the person responsible and/or location of the equipment has changed such that this information is not accurately reflected on the equipment inventory report.

We recommend the correct information for these equipment items be provided to the

BCN Purchasing Department so it can be updated in the fixed assets system.

#### **Institution Response**

- What will be done to avoid the identified problems and issues in the future; **Transfer forms will be submitted to correct responsible person and location.**
- How compliance and future good management and practice will be measured, monitored and assured; **Review of current internal inventory procedures will assist staff member responsible for maintaining SA inventory.**
- Who will be responsible and may be held accountable in the future if repeat or similar problems arise; **Executive Assistant North and Executive Assistant South.**
- When the measures will be taken and on what schedule compliance and good practice will be secured; **Immediately. During the annual physical inventory of both our fixed assets and sensitive equipment.**
- How compliance and performance will be documented for future audit management and performance review; **as noted above.**

## STATEMENT OF REVENUE AND EXPENDITURES

The statement of revenues and expenditures provided below is based on the activity of 15 state, 75 self-supporting, 22 gift, and 35 grant accounts that have been assigned to System Administration. The revenue and expenditure information was obtained from the financial accounting system and is provided for informational purposes only.

	State Accounts	Self Supporting Accounts	Gift Accounts	Grant Accounts	Total
Balance July 1, 2015	\$ -	\$ 124,760,853	\$ 453,630	\$ -	\$ 125,214,483
Transfers In	-	20,371,691 <sup>2</sup>	-	-	20,371,691
Revenues					
Indirect Cost	-	166,828	-	-	166,828
Sales of Educational Activities	-	2,447,284	-	-	2,447,284
Investment Income	-	(9,325,452)	-	-	(9,325,452)
Other	-	7,604,789	-	-	7,604,789
Federal Grants & Contracts Restricted	-	-	-	34,135,769	34,135,769
Private Grants & Contract Restricted	-	12,051	-	-	12,051
Endowment Income Restricted	-	-	241,414	-	241,414
Endowment Income Unrestricted	-	356,223	-	-	356,223
State Appropriations	4,759,514	148,547	-	-	4,908,061
Total Revenues	4,759,514	1,410,270	241,414	34,135,769	40,546,967
Transfer Out	35,899	20,427,771 <sup>2</sup>	-	-	20,463,670
Expenditures					
Salaries	3,810,596	3,861,380	-	1,025,145	8,697,121
Interest on Debt	-	109,690	-	-	109,690
Retirement of Debt	-	72,895	-	-	72,895
Travel	13,986	658,922	-	80,664	753,572
Host	-	71,871	-	77,419	149,290
Operations	882,954	13,573,522	-	1,205,869	15,662,345
Recharge	-	(2,646,598)	-	-	(2,646,598)
Participant Support	-	3,991,949	-	18,772	4,010,721
Sub Agreement with Indirect Cost	-	-	-	3,994,857	3,994,857
Sub Agreement without Indirect Cost	-	5,857	-	25,863,354	25,869,211
Sub Contracts	-	265,575	-	-	265,575
Scholarships	331	-	237,360	-	237,691
Facilities & Administrative Cost	-	1,139	-	621,270	622,409
Total Expenditures	4,707,867	19,966,202	237,360	32,887,350	57,798,779
Balance June 30, 2016	\$ 15,748 <sup>1</sup>	\$ 106,148,841 <sup>3</sup>	\$ 457,684	\$ 1,248,419	\$ 107,870,692

- 1 According to the NSHE Budget & Finance Office, this balance was combined and balanced with activity in other state-funded accounts that are not listed. It does not reflect funds that were reverted to the state.
- 2 Transfers consist primarily of internal transfers between System Administration's self-supporting accounts.
- 3 Approximately \$96.5 million of this balance consists of a reserve account and funds for the iNtegrate project that require Board of Regents approval for spending purposes.

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

Reno, Nevada  
December 15, 2016

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