

Minutes are intended to note (a) the date, time and place of the meeting; (b) those members of the public body who were present and those who were absent; and (c) the substance of all matters proposed, discussed and/or action was taken on. Minutes are not intended to be a verbatim report of a meeting. An audiotape recording of the meeting is available for inspection by any member of the public interested in a verbatim report of the meeting.

These minutes are not final until approved by the Board of Regents at the March 2014 meeting

**BOARD OF REGENTS\* and its  
AUDIT COMMITTEE  
NEVADA SYSTEM OF HIGHER EDUCATION**  
System Administration, Las Vegas  
5550 W. Flamingo Rd. Ste. C-1, Conference Room  
Las Vegas, Nevada 89103  
Monday, December 2, 2013

Video Conference Connection from the Meeting Site to:  
System Administration, Reno  
2601 Enterprise Road, Conference Room  
and  
Great Basin College, Elko  
1500 College Parkway, Berg Hall Conference Room

Members Present:           Mr. Ron Knecht, Chair  
                                  Ms. Allison Stephens, Vice Chair  
                                  Mr. Robert J. Blakely  
                                  Mr. Kevin C. Melcher

Members Absent:           Dr. Jack Lund Schofield

Others Present:            Mr. Larry Eardley, Vice Chancellor, Budget & Finance  
                                  Ms. Brooke Nielsen, Vice Chancellor, Legal Affairs  
                                  Mr. Vic Redding, Vice Chancellor, Administration & Finance  
                                  Ms. Renee Yackira, Vice Chancellor, Administration & Operations  
                                  Dr. Steven Zink, Vice Chancellor, Information Technology  
                                  Ms. Sandi Cardinal, Assistant Vice Chancellor, Internal Audit  
                                  Mr. Scott Anderson, Audit Manager, NSHE  
                                  Mr. R. Scott Young, Deputy Chief of Staff to the Board of Regents  
                                  Mr. Mike Richards, President, CSN  
                                  Mr. Chet Burton, Officer in Charge, WNC

*For others present please see the attendance roster on file in the Board Office.*

Chair Knecht called the meeting to order at 9:30 a.m. with all members present except Regent Schofield.

1.    Information Only – Public Comment (Agenda Item #1) – None.
2.    Approved – Consent Items (Agenda Item #2) – The Committee recommended approval of the consent items.
  - 2a.   Approved – Minutes (Agenda Item #2a) – The Committee recommended approval of the August 30, 2013, meeting minutes. (*Ref. A-2a on file in the Board Office.*)

2. Approved – Consent Items (Agenda Item #2) – (Continued)

2b. Approved – Follow-up: Business Center North Payroll, UNR (Agenda Item #2b) - The Committee recommended approval and acceptance of the follow-up response to the audit report of UNR Business Center North Payroll for the period July 1, 2011, through June 30, 2012. (Ref. A-2b on file in the Board Office.)

2c. Approved - Follow-Up: Differential Program and Special Course Fees, UNR (Agenda Item #2c) - The Committee recommended approval and acceptance of the follow-up response to the audit report of UNR Differential Program and Special Course Fees for the period July 1, 2011, through June 30, 2012. (Ref. A-2c on file in the Board Office.)

2d. Approved – Follow-up: Hosting, UNR (Agenda Item #2d) - The Committee recommended approval and acceptance of the follow-up response to the audit report of UNR Hosting for the period July 1, 2011, through June 30, 2012. (Ref. A-2d on file in the Board Office.)

Chair Knecht asked if UNR Hosting was still included on the agenda for the Business Officer's meeting. Mr. Judy stated it was and, because it will require policy changes, the item will likely close by the next regular Audit Committee meeting

2e. Approved - Follow-Up: Associated Students of the University of Nevada, Reno, UNR (Agenda Item #2e) - The Committee recommended approval and acceptance of the follow-up response to the audit report of UNR Associated Students of the University of Nevada, Reno for the period July 1, 2010, through May 31, 2012. (Ref. A-2e on file in the Board Office.)

2f. Approved - Follow-Up: Residency Determinations, UNLV (Agenda Item #2f) - The Committee recommended approval and acceptance of the follow-up response to the audit report of UNLV Residency Determinations for the period July 1, 2011, through June 30, 2012. (Ref. A-2f on file in the Board Office.)

2g. Approved - Follow-Up: Sponsored Projects Administration, NSC (Agenda Item #2g) - The Committee recommended approval and acceptance of the follow-up response to the audit report of NSC Sponsored Projects Administration for the period July 1, 2011, through September 30, 2012. (Ref. A-2g on file in the Board Office.)

Chair Knecht asked if the open recommendations will be closed in December. Mr. Buster Neel, NSC, noted seven of the items have been completed and the remaining five had not been completed because NSC had to hire an additional person in the area. The items are currently in process and they anticipate closure by December 15, 2013.

2h. Approved – Follow-up: Special Course Fees, TMCC (Agenda Item #2h) - The Committee recommended approval and acceptance of the follow-up response to the audit report of TMCC Special Course Fees for the period July 1, 2011, through September 30, 2012. (Ref. A-2h on file in the Board Office.)

2. Approved – Consent Items (Agenda Item #2) – (Continued)

- 2i. Approved - Follow-Up: PeopleSoft Security, TMCC (Agenda Item #2i) - The Committee recommended approval and acceptance of the follow-up response to the audit report of TMCC PeopleSoft Security for the period November 1, 2011, through January 10, 2013. (Ref. A-2i on file in the Board Office.)

Chair Knecht asked if the open recommendations will be closed in December. Ms. Rachel Solemsaas, Vice President, Finance & Administrative Services, TMCC, stated the masking of the social security numbers will be complete by December 31, 2013.

- 2j. Approved - Follow-Up: Special Course Fees, WNC (Agenda Item #2j) - The Committee recommended approval and acceptance of the follow-up response to the audit report of WNC Special Course Fees for the period July 1, 2011, through September 30, 2012. (Ref. A-2j on file in the Board Office.)

- 2k. Follow-Up: Hosting, WNC (Agenda Item #2k) - The Committee recommended approval and acceptance of the follow-up response to the audit report of WNC Hosting for the period July 1, 2011, through June 30, 2012. (Ref. A-2k on file in the Board Office.)

Vice Chair Stephens noted there is no expedited policy process in place and was happy they would be looking into the issue later in the agenda.

Regent Blakely moved approval of the consent items. Regent Melcher seconded. Motion carried. Regent Schofield was absent.

*(Audit Summary on file in the Board Office.)*

3. Approved - Special Course Fees, GBC (Agenda Item #8) – The Committee recommended approval of the report and institutional response to the GBC Special Course Fees audit for the period January 1, 2012, through December 31, 2012. (Ref. A-8 on file in the Board Office.)

Mr. Scott Anderson, Audit Manager, reviewed the *Audit Summary and Ref. A-8* highlighting special course fee requests were not documented on the standard form, documentation of requests and approvals were not maintained, and 94 percent of courses offered in the Spring 2012 and 98 percent of courses offered in Fall 2012 were assessed a Special Course Fee.

Chair Knecht was pleased recommendations causing this item to be carried over from the last meeting had been completed. Ms. Sonja Seibert, Vice President, Business Affairs, GBC, reported all items with an October 2013 completion date have been completed and the items for December 2013, are on track for completion.

Regent Blakely clarified there have been multiple similar items found at the different schools and he asked the chancellor to direct the presidents to move recommendations forward in the most efficient way possible.

3. Approved - Special Course Fees, GBC (Agenda Item #8) – (Continued)

Regent Melcher moved approval of the report and institutional response to the GBC Special Course Fees audit for the period January 1, 2012, through December 31, 2012. Regent Blakely seconded. Motion carried. Regent Schofield was absent.

4. Approved - Libraries, UNR (Agenda Item #9) – The Committee recommended approval of the report and institutional response to the UNR Libraries audit for the period July 1, 2011, through October 31, 2012. (Ref. A-9 on file in the Board Office.)

Mr. Anderson reviewed the *Audit Summary and Ref. A-9* highlighting policies and procedures had not been developed to handle accounting practices at the multimedia center, deposits were not made in a timely manner, outstanding customer accounts are not sent to a collection agency, and there are no written procedures that outline delegated authority to purchase information services and materials.

Chair Knecht stated UNR seemed to be going to a cashless society to improve some of these issues. Mr. Tom Judy, Associate Vice President, Business & Finance, UNR, reported they removed the cash function from that particular office in the library. This audit has been useful since this department was last audited in 2006. Regent Blakely asked what other option there was if a student only had cash. Mr. Judy noted there are other areas in the library that are equipped and will still accept cash.

Vice Chair Stephens asked why policies are not being associated with procedures in this audit. Mr. Judy stated policies exist at the System level that require Board action. The campus has an Administrative Manual that delineates policy so units on the campus will implement procedures which conform to overall policy specific to their department. Vice Chair Stephens asked to see the connection between the two in the future. Mr. Judy clarified the Administrative Manual was there to develop procedures to affect the operations that conform to policies, promulgated either at the campus or System level.

Vice Chair Stephens moved approval of the report and institutional response to the UNR Libraries audit for the period July 1, 2011, through October 31, 2012. Regent Blakely seconded. Motion carried. Regent Schofield was absent.

5. Approved - Communications With Those Charged With Governance, NSHE (Agenda Item #3) – The Committee recommended approval of the report on Communications with Those Charged with Governance for the Nevada System of Higher Education for the year ended June 30, 2013. (Ref. A-3 on file in the Board Office.)

Ms. Kim McCormick, Audit Partner, Grant Thornton, reviewed *Ref. A-3* highlighting their responsibilities, those charged with governance and management responsibilities, Governmental Accounting Standards Board (*GASB*), financial reporting entities of NSHE, new *GASB* pronouncements, significant risks and results, summary of adjustments, overview of the A-133 audit, internal control matters, other required communications, quality of accounting practices and alternative treatments and regulatory updates.

5. Approved - Communications With Those Charged With Governance, NSHE (Agenda Item #3) – (Continued)

Chair Knecht asked if the accounting of pensions applied more to the state because the System does not handle their own pensions. Ms. McCormick stated the System is evaluating the process, along with the state and other interested parties.

Chair Knecht referred to page 16, stating the liability side is greatly driven by passed adjusted journal entries (PAJE) one (PAJE #1) and two (PAJE #2) totaling approximately \$1.8 million and asked for an explanation on the net position and the changes. Ms. McCormick reported the change in net position is the difference between the revenue and expenses for the year. Had the entries been reflected in the financial statements there would have been a \$500,000 change to the bottom line. Management decided the unrecorded adjustments are immaterial to the financial statements, so they elected to not record them, which is why they are listed on page 16.

Vice Chair Stephens asked for an example of findings that did not rise to the level of committee notification. Ms. McCormick stated they are items that are not deemed material to the financial statements, such as the adjustments on page 16. Vice Chair Stephens was concerned very little would rise to the level of materiality. Ms. McCormick gave another example; if there was a problem in controls that could lead to a material adjustment in the financial statements, but it didn't, they would bring that forward. In last year's letter there was a comment relating to the process the management team used to pull together the financial statement and missing disclosures, availing them the opportunity to make the process better.

Regent Melcher asked if poor management practices or something unethical was noted whether that would rise to the top. Ms. McCormick stated it was a required communication.

Chair Knecht referred to PAJE #5, page 16, stating it is approximately \$2 million and asked for an explanation. Ms. McCormick believed it was the Study Abroad Program and related to a cut-off error for deposits that began prior to year-end. This was a timing issue. Vice Chair Stephens asked if they were still using the policy. Mr. Judy reported the program assumed they could operate on a different cycle because of when their summer classes began. UNR was not aware until after the financial statements were complete. Vice Chair Stephens asked for follow-up as to whether Board action helped them fix this unique situation. Mr. Judy noted they were given the ability to operate on the cycle, but have to comply with Board policy. Mr. Judy reported they would report on their progress at a future meeting.

Chair Knecht thought it was important that all institutions hear what has been said relating to changes in strategic and public policy issues.

Regent Melcher moved approval of report on Communications with Those Charged with Governance for the Nevada System of Higher Education for the year ended June 30, 2013. Regent Blakely seconded. Motion carried. Regent Schofield was absent.

6. Approved - OMB Circular A-133 Audit Report & Financial Statements, NSHE (Agenda Item #4) –The Committee recommended approval of the NSHE Office of Management and Budget (OMB) A-133 Audit Report and Financial Statements for the year ended June 30, 2013. (*Ref. A-4 & Handouts on file in the Board Office*)

Chair Knecht reported the biggest problem with this report relates to CSN student financial assistance. Chair Knecht noted he distributed a three page chairman's requested motion (*Handout #1*), addressing the issues, including inadequate/insufficient response by NSHE institutions, repeat findings, significant deficiencies, material weaknesses, instances of noncompliance required to be reported in accordance with OMB Circular A-133, findings and questioned costs leading to a qualified opinion on the student financial aid cluster, specific problems involving CSN and acceptance of the Grant Thornton Single Audit Report for the year ended June 30, 2013.

Ms. Brooke Nielsen, Vice Chancellor, Legal Affairs, stated the draft document was distributed by email and there have been no discussions by Board members relating to the document. Chair Knecht added a final document, with non-substantive changes was provided this morning.

Regent Melcher asked how much they were going to get into this item, because it is on the full Board agenda for later in the week. Chair Knecht and Vice Chair Stephens have been in thorough contact with Chairman Page and Vice Chairman Trachok as it relates to this item. The Committee will review this item, but substantive action will be reserved for the full Board. They decided it would be useful to get as much of the information as possible presented in the Committee meeting. Chair Knecht stated the motion summarizes the facts and some of the issues and finally asked the Committee to respectfully recommend to the full Board of Regents that it ratify and adopt these findings, conclusions and actions, in addition to any related measures the Board's deliberations may merit.

Regent Blakely felt the handout captures the issues and addresses the Committee's responsibilities and he was comfortable with this motion.

Vice Chair Stephens believed this was also a time management issue.

Ms. McCormick stated *Ref. A-4* covers the Financial Statement Audit Report and the A-133 Audit Report. Management put a lot of effort into this document and it is important to acknowledge the fine job they did. The Financial Statements Audit Report received an unmodified clean opinion. Page 26 is the combined statement of revenues and expenses and the System had a \$61 million net increase for the year. The schedule of expenditures for federal awards begins on page 70. This document outlines all the federal grants and contracts for the System. Student financial assistance and research and development clusters met the criteria for current audit. Chair Knecht reminded everyone that an unqualified audit opinion is what is expected.

Ms. McCormick directed the Committee to page 209, feeling this was the best place to begin. This is where the federal government goes to review the audits. They provide a high level overview of the audit results. The first section of the schedule of findings speaks to the unmodified, clean opinion of the Financial Statements Audit Report. The next section speaks to the results of the A-133 Audit Report and there were material

6. Approved - OMB Circular A-133 Audit Report & Financial Statements, NSHE (Agenda Item #4) – (Continued)

weaknesses in internal controls identified, significant deficiencies, and instances of non-compliance. The findings in the research and development cluster were not of a level that would require modification or qualification. The student financial aid cluster included issues, in addition to the findings, relating to the frequency or the breadth of the issue across the System resulting in some qualifications in the areas of verification, enrollment reporting and disbursements. Four of the findings relate to the research and development cluster and the remainder to the student financial assistance cluster. The format of the finding is mandated by the federal government including the criteria, regulations, the condition noticed, the effect, the cause, the recommendation, and the views and planned corrective action by responsible officials.

Vice Chair Stephens asked Ms. McCormick what constitutes a finding. Ms. McCormick noted there are 14 areas of compliance auditors are asked to look at. A finding is when a certain frequency of non-compliance shows itself. Vice Chair Stephens asked for the process and at what level something becomes a finding. Ms. McCormick gave an example of a sample of 40 with three to four instances of non-compliance. This tells them the level of non-compliance is unacceptable in the attribute sampling. Chair Knecht asked if there was a threshold they would hit which says we do not have to move any further forward. Ms. McCormick noted that when faced with a rate of noncompliance, they would step back and see if management could contain it. There are instances they would look further, but if there are instances where it becomes clear it is a pervasive issue they would stop further review. Ms. McCormick felt it was dependent on the nature of the issue, but they also use the attribute sampling tables relating to exception rates that show when to stop.

Vice Chair Stephens wanted to provide a supportive anecdotal experience of what the students are going through. She was contacted by a CSN constituent regarding a letter he received relating to his financial aid award. The letter stated if you complete “X” amount of credits, then you will qualify for financial aid. His question was does he qualify now, or does he have to complete that number of credits to qualify for next semester. The student was unable to get a response to his question. Vice Chair Stephens contacted the Financial Aid Department and had great difficulty. She went to the CSN website directory, when she could not contact anyone, called every single number and left a message for someone to call back immediately. She did receive a call back and that person was unhappy and not polite. The employee asked her if the student could not read the letter then how could they possibly understand her over the phone? Vice Chair Stephens insisted she contact the student. She preceded to contact the student telling him that if he didn’t have his student identification number there was no way she could help him, and that he would have to return and stand in line again. Vice Chair Stephens then contacted Dr. Michael Richards, CSN President, and he graciously took care of the issue very expeditiously. This shows a culture of inappropriate behavior and poor customer service.

Chair Knecht noted the three smallest institutions did not show up in this audit. Ms. McCormick stated the smaller institutions are cycled through over the years. Chair Knecht asked the smaller institutions to take note; just because they haven’t shown up does not mean they do not have the same problems.

6. Approved - OMB Circular A-133 Audit Report & Financial Statements, NSHE (Agenda Item #4) – (Continued)

President Richards introduced Ms. Patty Charlton, Senior Vice President, Finance and Administration; Ms. Vikki Goeke, Interim Director, Financial Aid; Ms. MaryKaye Bailey, Controller; and Mr. Richard Hinckley, General Counsel.

President Richards reviewed *Handout #2* and summarized the timeline, process, challenges, actions, opportunities, next steps and lessons learned.

President Richards acknowledged Ms. Renee Yackira, Vice Chancellor, Administration and Operations and her help and involvement through this process. President Richards also appreciated the fact the chair and vice chair of this Committee, the chairman of the Board and the chancellor attended the presentation meeting.

Chair Knecht asked if there was any part of the Evans Report (*Evans Consult Group report regarding administration of financial aid at CSN*) CSN does not agree with or plan to implement. President Richards stated they totally agree with the salient recommendations and are implementing them.

Vice Chair Stephens clarified the letter sent by the United States Department of Education in March was the red flag that made CSN aware of this situation. President Richards stated a number of these issues began to present themselves through the audit process, but it was not until the communication from the Department of Education in March that the depth of the problem came to his attention.

Vice Chancellor Yackira believed the draft motion is appropriate and consistent with the CSN matters. The review at CSN is ongoing. They have learned that until the Department of Education letter was received they didn't know the level of errors. The question is whether there should be an internal review of the threshold errors to see if process changes are needed or is there a greater systematic problem. She is working with Evans Consulting to identify the process review, but at the System level they are looking at a separate contract to see who knew what and when.

Chair Knecht added the draft motion was taken directly from the A-133 Audit Report in an attempt to summarize it. The NSHE has a job to do that consists of convincing the federal agencies it is reaching excellence and exceeding compliance.

Regent Melcher understood the need for this Committee, and more so the full Board, to hold institutions to procedures and levels of acceptable reporting and audit work. Out of respect to Grant Thornton he thought the Committee needed to accept the report as submitted. He felt the additional comments needed to be a separate motion of the Committee recommendations based on Grant Thornton's report. Chair Knecht stated this was not an attempt to modify the report provided by Grant Thornton. Regent Melcher stated he was still trying to digest the suggested motion and didn't know if it included everything, because other Regents may have additional ideas. Chair Knecht stated the motion was never intended to be complete and final. The motion is based on the single audit report and the work they have been doing to investigate this matter.

6. Approved - OMB Circular A-133 Audit Report & Financial Statements, NSHE (Agenda Item #4) – (Continued)

Mr. Vic Redding, Vice Chancellor, Administration and Finance, did not have any issues with the single audit report. This entire process has brought to light some gaps within the System.

Chancellor Klaich wanted to put on the record that early in the process there was a meeting to determine the seriousness of this matter. Early on they asked Vice Chancellor Yackira to be an independent voice for the Board of Regents. She was given full access to records and personnel. The response from CSN has been transparent and very aggressive in its actions as the institution moves forward.

Chancellor Klaich stated he had not received the motion until that morning. He does share concerns as to whether it is all there. To the extent the report is saying this is serious, they are taking these reports seriously and expect the institutions to take the reports seriously and remedy the issues; this motion is substantive and makes a very important statement.

Vice Chancellor Nielsen believed this motion could be broken into two motions if that was the desire of the Committee. She added she had read the proposed motion and believed it highlighted the significant issues in the actual single audit report.

President Richards noted this motion reflects many of the things he and Chair Knecht have talked about. CSN would not be where they are now in terms of a remedy without the audit findings. President Richards understood conceptually the Committee wanted repeat findings fully addressed, but thought they would be remiss in their responsibilities if they didn't recognize on a practical level they are half way through a fiscal year and there will be repeat findings. CSN has been aggressive and open, and it is going to be important for other institutions to learn from this.

Chair Knecht stated this was an attempt to recognize and successfully grapple with the gravity of this situation. They are trying to tell those inside the System and the federal government they are serious about fixing these matters.

Regent Blakely was concerned about this, but believed President Richards has taken steps to mediate this situation. He noted all five institution reviewed had at least one significant deficiency. He was comfortable with the proposed motion.

6. Approved - OMB Circular A-133 Audit Report & Financial Statements, NSHE (Agenda Item #4) – (Continued)

Chair Knecht offered an amendment to #8 on page three changing “The audit report...” to “The audit opinion...”

Regent Blakely moved approval of the proposed motion as follows with the proposed amendment to #8 offered by Chair Knecht:

The outside auditor, Grant Thornton, LLP (GT) reported 18 separate Federal Award Findings and Questioned Costs (Findings 2013-001 through 2013-018), variously involving the College of Southern Nevada (CSN); Truckee Meadows Community College (TMCC); the University of Nevada, Las Vegas (UNLV); the University of Nevada, Reno (UNR), and the Desert Research Institute (DRI).

- 1) **Inadequate/Insufficient Responses by NSHE Institutions:** For each finding, the institutions implicated provided responses that (per normal practice) were not audited by GT. We recognize that this audit to meet federal requirements is compliance-oriented, but we nonetheless expect NSHE institutions to respond to such findings in the same manner as they should for internal audit findings and exceptions: That is, to use them as management tools to guide and continuously improve performance and to document how they use them in this manner (not treat them as mere compliance matters to be satisfied or rectified on a one-time basis). With few and limited exceptions, we find that the responses to GT’s findings by five institutions do not meet the standards we expect. In response to any future federal audit findings, we direct the institutions to provide responses that indicate not just how compliance was achieved, but at least the following with reasonable specificity:
  - What will be done to avoid the identified problems and issues in the future;
  - How compliance and future good management and practice will be measured, monitored and assured;
  - Who will be responsible and may be held accountable in the future if repeat or similar problems arise;
  - When the measures will be taken and on what schedule compliance and good practice will be secured; and
  - How compliance and performance will be documented for future audit, management and performance review.
  
- 2) **Repeat Findings:** Ten of this year’s 18 audit findings were repeat findings, many of them repeats from more than one prior year. Of 16 findings from the prior year (ended June 30, 2012), ten were reported as subject to repeat findings this year and only six were cleared as having been cured by corrective action. All five institutions were implicated in at least one repeat finding each. Except with an extraordinary and satisfactory explanation (of which there are few, if any, here), the Committee finds and concludes that repeat findings are unacceptable. All NSHE institutions are hereby notified that we expect future findings to be promptly and fully remedied and addressed as discussed above, and not to lead to

6. Approved - OMB Circular A-133 Audit Report & Financial Statements, NSHE (Agenda Item #4) – (Continued)

Proposed motion continued:

repeat findings. In the event of future repeat findings, the Committee will recommend appropriate action to the full Board of Regents.

- 3) **Significant Deficiencies:** The audit found significant deficiencies (less severe than material weaknesses) in internal control over compliance in 14 of 18 areas subject to findings and questioned costs, with all five institutions involved in at least one such significant deficiency. The Committee expects all NSHE institutions to promptly remedy such significant deficiencies in the manner described above and to avoid others in the future. The Committee directs all five institutions to report their progress and compliance with Committee directives in this regard at the next meeting of the Committee.
- 4) **Material Weaknesses:** The audit found material weaknesses in internal control over compliance in four of 18 findings and questioned costs, with CSN, TMCC, UNLV and UNR all involved in at least one such finding of material weakness. (All material weaknesses were related to the student financial aid cluster; none were related to the research and development cluster.) The Committee expects all NSHE institutions to promptly remedy such material weaknesses in the manner described above and to avoid others in the future. The Committee finds that material weaknesses are unacceptable shortcomings. The Committee directs all four institutions to report their progress and compliance with Committee directives in this regard at the next meeting of the Committee.
- 5) **Instances of Noncompliance Required to Be Reported in Accordance with OMB Circular A-133:** The audit found three instances of noncompliance required to be reported in accordance with OMB Circular A-133 (although the auditor's opinion on each federal program was not modified with respect to these three matters), with CSN and UNLV each implicated in two of the three matters. The Committee expects all NSHE institutions to promptly remedy such noncompliance in the manner described above and to avoid other non-compliances in the future. The Committee directs both institutions to report their progress and satisfaction of Committee directives in this regard at the next meeting of the Committee, as well as any response from federal agencies in this regard.
- 6) **Findings and Questioned Costs Leading to a Qualified Opinion on the Student Financial Aid Cluster:** The audit found that the four instances of material weaknesses in findings and questioned costs in the student financial aid cluster (but none in the research and development cluster) formed the basis for a qualified opinion on the System's compliance with the requirements applicable to that program because the System did not comply with federal program requirements as a result of these four items. Although this qualified opinion may not raise problems for the System's credit ratings or costs of money, the Committee views a qualified opinion and the shortcomings that caused it as a matter of the utmost seriousness and concern – one that must be remedied

6. Approved - OMB Circular A-133 Audit Report & Financial Statements, NSHE (Agenda Item #4) – (Continued)

Proposed motion continued:

immediately and not repeated. The Committee fully intends to secure compliance by all NSHE institutions, units and activities with all federal requirements promptly and to demonstrate the good stewardship and citizenship of all of NSHE in all regards, and it will recommend to the Board of Regents all necessary and appropriate actions to that end. The Committee expects all NSHE institutions to promptly remedy such bases for a qualified opinion in the manner described above and to avoid others in the future. The Committee finds that material weaknesses leading to a qualified opinion are unacceptable shortcomings. The Committee directs CSN, TMCC, UNLV and UNR to report their progress and compliance with Committee directives in this regard at the next meeting of the Committee.

- 7) **Specific Problems Involving CSN:** The audit found that CSN's practices and performance were implicated in nine of 14 student financial aid cluster finding / questioned-cost items, including three of the four material weakness items that formed the basis for the qualified opinion. Further, CSN's shortcomings were clearly the worst among the five institutions. They are broad, deep, systemic, and indicative of dysfunctional working culture, management and administration at least in the student financial aid area, with inadequacies in training and personnel, technology, processes, service and other results. They have poorly served students and the public, and already cost CSN and NSHE perhaps \$2-million in all. A full account of the deficiencies is too long to detail here. CSN has recognized the failure and commissioned two outside parties to help restore its student financial aid system to functionality and to diagnose the problems and find remedies. Investigations on this matter are still ongoing, and remedies will have to be as broad, deep, systemic and thorough as the problems. The Committee finds CSN's performance in this area completely unacceptable, and it continues actively to consider what further measures are needed, while the matter is also agendized for possible action at the next meeting of the full Board of Regents. The Committee expects CSN urgently and diligently to continue all measures to further diagnose and completely remedy these shortcomings and it directs CSN to report in full on its actions before and at the next Committee meeting. Further, the Committee expects CSN to propose additional remedies and options as they may appear.
- 8) **Acceptance of the Grant Thornton Single Audit Report for the Year Ended June 30, 2013:** The Committee accepts the GT Single Audit Report for the Year Ended June 30, 2013, which addresses financial statements and matters required by government auditing standards, as well as compliance required by OMB Circular A-133. The audit *opinion* is modified (qualified) only to the extent noted above.

6. Approved - OMB Circular A-133 Audit Report & Financial Statements, NSHE (Agenda Item #4) – (Continued)

Proposed motion continued:

The Committee respectfully recommends to the full Board of Regents that it ratify and adopt these findings, conclusions and actions, too, in addition to any related measures the Board's deliberations may merit.

Vice Chair Stephens seconded.

Regent Melcher stated he would support the document if they would consider separating the two issues; the Grant Thornton audit and then the proposed motion with a couple revisions.

Regent Melcher offered a friendly amendment to #7 "They have poorly served students and the public..." to read "They have poorly served students and the public *with regard to student financial aid issues*..."

Chair Knecht stated he was happy with the suggestion but just wanted them to be strong, clear and fair.

Regent Melcher offered a second friendly amendment that would delete the final sentence in #8 which reads, "The audit opinion is modified (qualified) only to the extent noted above."

Regent Melcher asked to have #8, the first paragraph that reads as follows as the first motion:

The Committee accepts the GT Single Audit Report for the Year Ended June 30, 2013, which addresses financial statements and matters required by government auditing standards, as well as compliance required by OMB Circular A-133.

Regent Melcher asked to have #8, the second paragraph that reads as follows as the second motion:

The Committee respectfully recommends to the full Board of Regents that it ratify and adopt these findings, conclusions and actions, too, in addition to any related measures the Board's deliberations may merit.

Chair Knecht clarified that he was just reciting what Grant Thornton included in the actual audit report.

Vice Chancellor Yackira offered a friendly amendment to the last sentence of paragraph one in #8: The audit opinion is modified (qualified) only to the extent noted *in the report*.

6. Approved - OMB Circular A-133 Audit Report & Financial Statements, NSHE (Agenda Item #4) – (Continued)

Regent Melcher and Regent Blakely agreed with Vice Chancellor Yackira's suggested amendment.

Regent Blakely accepted the friendly amendments for #7 and #8 (noted in **bold italics**). Vice Chair Stephens also accepted the friendly amendments.

Vice Chancellor Nielsen asked for clarification if they were breaking the motion into two parts. Regent Blakely stated he was accepting the friendly amendment wording changes.

Regent Melcher asked what happens if the Board does not approve this recommendation. Regent Melcher stated this was asking the Board to reject the Grant Thornton audit report. Chair Knecht stated this will be the action of the Committee and is expressly asking the Board to ratify and adopt these findings.

Assistant Vice Chancellor Cardinal noted it is very important to accept the audit report because there are looming deadlines that need to be met, such as with the Department of Insurance.

Vice Chair Stephens understood the acceptance of the audit report is not an action of the full Board, but of the Committee. Chair Knecht stated the full Board normally accepts the report of the Committee. The proposed motion will be included in the Chair's Report.

Motion carried. Regent Schofield was absent.

The meeting recessed at 11:49 a.m. and reconvened at 11:57 a.m. with all members present except Regents Schofield and Blakely.

7. Approved - Communications With Those Charged With Governance, UNSOM Integrated Clinical Services, Inc. (Agenda Item #5) – The Committee recommended approval of the report on Communications with Those Charged with Governance for the UNSOM Integrated Clinical Services, Inc. for the year ended June 30, 2013. This is a report on communications related to the consolidated audit of the System and is required for compliance with the professional standards for CPA firms. (*Ref. A-5 on file in the Board Office.*)

Ms. McCormick reviewed *Ref. A-5* highlighting significant risks, summary of adjustments, fraud and noncompliance with laws and regulations, and OMB circular A-133 compliance audit.

Regent Melcher moved approval of the report on Communications with Those Charged with Governance for the UNSOM Integrated Clinical Services, Inc. for the year ended June 30, 2013. Vice Chair Stephens seconded. Motion carried. Regents Schofield and Blakely were absent.

8. Approved - OMB Circular A-133 Audit Report & Financial Statements, UNSOM Integrated Clinical Services, Inc. (Agenda Item #6) – The Committee recommended approval of the UNSOM Integrated Clinical Services, Inc. Office of Management and Budget (OMB) A-133 Audit Report and Financial Statements for the year ended June 30, 2013. (*Ref. A-6 on file in the Board Office.*)

Ms. McCormick reviewed *Ref. A-6* highlighting an unmodified opinion, management's discussion and analysis and findings.

Vice Chair Stephens moved approval of the UNSOM Integrated Clinical Services, Inc. Office of Management and Budget (OMB) A-133 Audit Report and Financial Statements for the year ended June 30, 2013. Regent Melcher seconded. Motion carried. Regents Schofield and Blakely were absent.

9. Approved - Internal Control Matters, UNSOM Integrated Clinical Services, Inc. (Agenda Item #7) – The Committee recommended approval of the UNSOM Integrated Clinical Services, Inc. Report on Internal Control Matters for the year ended June 30, 2013. (*Ref. A-7 on file in the Board Office.*)

Ms. McCormick reviewed *Ref. A-7* highlighting identified control deficiencies in accounts receivable, financial statement preparation and computer applications.

Dr. Jean Regan, Senior Associate Dean, School of Medicine, was thrilled with the results of the A-133 audit report of the practice plan. They are doing a fabulous job.

Vice Chair Stephens stated for all the institutions there are issues with information technology. Overall there are password and security issues that are a red flag for basic operations. The software being used is there for a reason, employees need to be adequately trained. There need to be checks and balances and quality assurance.

Regent Melcher moved approval of the UNSOM Integrated Clinical Services, Inc. Report on Internal Control Matters for the year ended June 30, 2013. Vice Chair Stephens seconded. Motion carried. Regents Schofield and Blakely were absent.

*(Audit Summary on file in the Board Office. – Continued)*

10. Approved - Student Accounts-PeopleSoft, UNR (Agenda Item #10) – The Committee recommended approval of the report and institutional response to the UNR Student Accounts PeopleSoft audit for the period Fall 2012 and Spring 2013. (*Ref. A-10 on file in the Board Office.*)

Mr. Anderson reviewed the *Audit Summary and Ref. A-10* highlighting incorrect fee waivers for 69 graduate research assistant students and 19 students were not charged the Differential Program Fee.

10. Approved - Student Accounts-PeopleSoft, UNR (Agenda Item #10) – (Continued)

Mr. Judy noted the audit report was helpful and pointed out this system was just implemented two years ago and they are still learning.

Regent Melcher moved approval of the report and institutional response to the UNR Student Accounts PeopleSoft audit for the period Fall 2012 and Spring 2013. Vice Chair Stephens seconded. Motion carried. Regents Schofield and Blakely were absent.

11. Approved - Facilities, DRI (Agenda Item #11)– The Committee recommended approval of the report and institutional response to the DRI Facilities audit for the period July 1, 2011, through February 28, 2013. (Ref. A-11 on file in the Board Office.)

Mr. Anderson reviewed the *Audit Summary and Ref. A-11* highlighting agreements included hold harmless clauses that did not meet NSHE requirements, not an adequate separation of duties in the Facilities Department, and 21 expenditure transactions were not approved by an authorized account signer.

Mr. Greg Morgan, Controller, DRI, noted they agreed with all findings and have made corrective actions.

Vice Chair Stephens moved approval of the report and institutional response to the DRI Facilities audit for the period July 1, 2011, through February 28, 2013. Regent Melcher seconded. Motion carried. Regents Schofield and Blakely were absent.

12. Information Only - Response to Audit Matters and Findings (Agenda Item #12) - The Committee discussed the needs for the NSHE institutions to be (1) timely and complete in their responses to audit matters; and (2) to be particularly mindful of audit findings relating to timely and customer-service-oriented responses to students and the public.

Vice Chair Stephens wanted institutional level procedures developed to meet the requirement of timely completion. Audit findings need an expedited process in place to remedy the issues without having to go through committee.

Vice Chancellor Nielsen noted the institutions need to focus on how they can respond as quickly as possible. They need to review their processes and she believed they could address this in their administrative manuals. She encouraged them to put a process in place to specifically address how they respond to audit findings.

Regent Melcher felt when the Board or Committee asked for information they are not very good about saying what they want, when they want it and how to get it. He felt specific formats were needed. Institutions should not be guessing as to what has been requested and how they should present it. Regent Melcher noted shared governance had been mentioned during this meeting. He felt the Board should make sure the shared governance process is a good process, but other than that, shared governance should stay at the institutional level.

13. Information Only – New Business (Agenda Item #13) – Chair Knecht and the Committee congratulated Assistant Vice Chancellor Cardinal on her years of service and her retirement.
14. Information Only – Public Comment (Agenda Item #14) – WNC and GBC expressed their best wishes to Assistant Vice Chancellor Cardinal.

Meeting adjourned at 12:35 p.m.

Prepared by:

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Submitted for approval by:

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