PRESENTATION TO THOSE CHARGED WITH GOVERNANCE

2022 Annual Audit Results Presentation

Nevada System of Higher Education

March 2023

DRAFT – Open for management and GT's review of the PEBP's June 30, 2022 audited financial statements received on February 24, 2023 along with wrap up procedures.

This communication is intended solely for the information and use of management and those charged with governance of Nevada System of Higher Education and is not intended to be and should not be used by anyone other than these specified parties.

Audit timeline & scope

Spring 2022	Client continuance	• Client reacceptance • Issue engagement letter • Conduct internal client service planning meeting, including coordination with IT audit support team
May-August 2022	Planning	• Meet with management to confirm expectations and discuss business risks, coordinate planning and develop work calendar • Discuss scope of work and timetable • Identify current-year audit issues and discuss recently issued accounting pronouncements of relevance
August 2022	Preliminary risk assessment procedures	• Develop audit plan that addresses risk areas • Update understanding of internal control environment
May-September 2022	Interim fieldwork	• Perform walk-throughs of business processes and controls • Performed compliance procedures specific to federal major programs
September 2022 – March 2023	Final fieldwork and deliverables	• Perform final phase of audit and year-end fieldwork procedures • Present results to the Audit Committee • Review PEBPs June 30, 2022 audited financial statements received on February 24, 2023. • Uniform Guidance audit of federal major programs – to issue report concurrent with issuance of opinion on financial statements

Our Responsibilities

We are responsible for:

- Performing an audit under US GAAS and *Government Auditing Standards* of the financial statements prepared by management, with your oversight;
- Forming and expressing an opinion about whether the financial statements are presented fairly, in all material respects in accordance with US GAAP;
- Forming and expressing an opinion about whether certain supplementary information, including the Schedule of Expenditures of Federal Awards (SEFA) is fairly stated in relation to the financial statements as a whole;
- Reporting material noncompliance with federal awards requirements applicable to major program(s) audited under the Uniform Guidance requirements (formerly OMB Circular A-133), as well as significant deficiencies and/or material weaknesses in internal control over compliance;
- Communicating fraud and abuse with regard to federal and state programs;
- Communicating specific matters to you on a timely basis;
- Reading other information and considering whether it is materially consistent with the financial statements;
- Reporting material non-compliance related to laws, regulations, contracts and grant agreements, as well as significant deficiencies and/or material weaknesses in internal control related to financial reporting;
- An audit provides reasonable, not absolute, assurance that the financial statements do not contain material misstatements due to fraud or error. It does not relieve you or management of your responsibilities. Our respective responsibilities are described further in our engagement letter.

Those Charged With Governance and Management Responsibilities

Those Charged with Governance are responsible for:

- Overseeing the financial reporting process
- Setting a positive tone at the top and challenging the System's activities in the financial arena
- Discussing significant accounting and internal control matters with management
- Informing us about fraud or suspected fraud, including your views about fraud risks
- Informing us about other matters that are relevant to our audit, such as:
  - Objectives and strategies and related business risks that may result in material misstatement
  - Matters warranting particular audit attention
  - Significant communications with regulators
  - Matters related to the effectiveness of internal control and your oversight responsibilities
  - Your views regarding our current communications and your actions regarding previous communications

Management is responsible for:

- Preparing and fairly presenting the financial statements including supplementary information such as SEFA (Schedule of Expenditures of Federal Awards) in accordance with US GAAP
- Designing, implementing, evaluating, and maintaining effective internal control over financial reporting
- Communicating significant accounting and internal control matters to those charged with governance
- Providing us with unrestricted access to all persons and all information relevant to our audit
- Informing us about fraud, illegal acts, significant deficiencies, and material weaknesses
- Adjusting the financial statements, including disclosures, to correct material misstatements
- Informing us of subsequent events
- Providing us with written representations

Financial Reporting for NSHE

Financial Reporting Entity of NSHE

The Financial Reporting Entity of NSHE includes:

- The System (Eight Colleges and Universities plus System Administration)
- System-Related Organizations (17 not-for-profit organizations including fund raising foundations and faculty medical practice plans)

Governmental Accounting Standards Board (GASB)

GASB is an independent, private-sector, not-for-profit organization that establishes and improves standards of financial accounting and reporting for U.S. state and local governments, including state university systems. The basic financial statements for a state and local government are:

- The Statement of Net Position
- The Statement of Revenues, Expenses and Changes in Net Position
- The Statement of Cash Flows
- Management's Discussion & Analysis is also considered Required Supplementary Information to be reported with the basic financial statements

Significant risks

The following provides an overview of significant risks based on our risk assessments.

Significant risk area	Results
Management override of controls (presumed fraud risk)	• We obtained a complete population of journal entries from management and included the entire journal entries population for JE testing. We used Whole Ledger Analytics (Transactional Scoring and Account Combinations) to identify entries for testing. Transactional scoring analytics process every journal entry through a series of extractions designed to identify specific characteristics of potential fraud or management override of controls. The approach analyzes every journal entry line to determine whether it meets the selection criteria of each extraction. The analytics then score each journal entry based on the summation of the scores of every journal entry line across all extractions. Journal entries that exhibit elevated scores may represent entries with heightened risk of material misstatement due to fraud or entries with a risk of management override of controls. Entries that were identified as having a higher fraud risk were selected for testing. • Considered the design and implementation of entity-level controls, including information technology controls, designed to prevent/detect fraud. • Assessed the ability of the University to segregate duties in its financial reporting, information technology, and at the activity-level. • Conducted interviews of individuals involved in the financial reporting process to understand (1) whether they were requested to make unusual entries during the period and (2) whether they are aware of the possibility of accounting misstatements resulting from adjusting or other entries made during the period.

Significant risks and other areas of focus

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Significant risk	Results
Tuition revenue	• Obtained the rates in effect for the year under audit and used this information to set expectations of revenue for tuition and fees. Performed detailed tuition reasonableness test based on this information. • Performed detailed testing of PeopleSoft student account revenue by selecting a stratified sample for each of the in-scope schools. Verified charges per student accounts and receipt of payment to support revenue being recorded. • Performed substantive analytical procedures over deferred amounts to ensure proper cutoff.
OPEB and PERS liability; deferred outflows/inflows	• Reviewed the analysis of PERS and OPEB balances based on the underlying audited financials statements and allocations schedules prepared by the actuary. (OPEB procedures to be performed upon receipt of PEBP's FY 2022 audited financial statements.) • Assessed the reasonableness of actuarial assumptions: discount factor, trend rates and cash flows, amongst others. • Tested participant contribution detail. • Reviewed the financial statement disclosures.

Significant risks and other areas of focus (continued)

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Significant risk	Results
Federal, local, and other grants and contracts revenues – operating and non-operating	• Performed detailed testing of grant revenue by selecting a stratified sample and testing grant contract, request for reimbursement, receipt of payment and reasonableness of expenses submitted for reimbursement. We ensured the underlying expenses were allowable under the associated grants. • Selected a sample of grant revenue receivable and tested balance to ensure appropriately recorded.
Other revenue (Sales and Services of educational departments; Sales and services of auxiliary enterprises)	• We tested a sample of revenue transactions via vouching to source documentation to ensure proper revenue recognition in line with the criteria outlined in the applicable guidance. We verified charges and receipt of payment to support revenue recorded. • Performed analytical review and substantive testing to ensure proper cutoff.
Valuation of alternative investments	• Confirmed existence of investment holdings directly with custodians. • Tested management's process of valuing alternative investments • Reviewed completeness and accuracy of footnote disclosures
GASB 87 implementation (other area of focus, not a significant risk)	• Performed procedures to ensure completeness of the lease contracts analyzed by management as part of GASB 87 implementation. • Selected a sample of lease contracts and recalculated management's schedules to ensure lease receivables/deferred inflows and right of use assets/lease liability were reasonably stated as of June 30, 2022. GT tested certain assumptions made by management for reasonableness (discount rate, lease term.) • Reviewed completeness and accuracy of footnote disclosures.

Major Programs for Uniform Guidance Audit

The following provides an overview of the major programs tested for fiscal year 2022

Major program	2022 Expenditures
Dept of Educ: *Student financial assistance cluster*	$369 million
Dept of Educ: *Career and Technical Education*	$4.5 million
Dept of Educ: *HEERF (COVID-19)*	$208 million
Dept of Educ: *GEARUP*	$4.1 million
Dept of Treasury: *State and Local Fiscal Recovery Funds (COVID-19)*	$35 million
Dept of Health and Human Svcs*: Rural Health Research (COVID-19)*	$3.2 million
Dept of Health and Human Svcs*: ELC (COVID-19)*	$7.1 million
Dept of Health and Human Svcs*: Health Disparity (COVID-19)*	$3.4 million
Dept of Interior: Radium Remediation	$5.6 million

Areas of focus for Uniform Guidance Audit

The following provides an overview of the areas of significant audit focus based on our risk assessments.

Area of focus	Procedures
Compliance with 2 CFR 200 Uniform Guidance	Perform compliance and controls procedures in accordance with the guidance of US Office of Management and Budget's 2022 Compliance Supplement including: • Planning, identification of major federal program(s) and risk assessment. • Review the respective federal compliance supplements and, as applicable, the specific grant/award agreements and identify compliance requirements which are either subject to audit or applicable. • Document/update internal controls over compliance for each of the respective major federal programs or clusters. • Test compliance and internal controls over compliance for each direct and material compliance requirement over each major federal program. • There are 12 compliance requirements for each major program. Of these, typically 6-8 have been direct and material to each major program or cluster. • Test the reconciliation of the schedule of expenditures of federal awards to the respective amounts included within the financial statements. • Communicate compliance/control findings to management and Audit Committee. • Render respective independent auditor opinions. • Prepare the appropriate sections of the federal Data Collection Form submitted to the Federal Audit Clearinghouse.

Technology support as part of the audit process

Phase 1	Phase 2	Phase 3	Phase 4
Understand and document business processes material to the audit	**Assess IT risks**	**Identify IT controls that support audit objectives**	**Test technology- related controls**

An important component of our audit approach is to understand how IT is used and deployed in supporting business operations and producing financial reports. Our technology specialists place particular emphasis on the risks relating to the use of technology and its associated controls, processes and practices. Our general controls review evaluates the design of controls that mitigate risk in areas such as organization and operations, protection of physical assets, application systems development and maintenance, access controls and computer operations.

Summary of misstatements

Description	Assets	Liabilities	Net Position	Change in Net Position
Uncorrected misstatements				
1 Cash	(2,479,756)			
Other Assets	(27,819)			
Total Liabilities		(169,943)		
Fiduciary Net Position			(2,337,631)	
To remove the fiduciary activity from NSHE's books and create a new fiduciary fund				
2 Endowment investments	(3,176,854)			
Gain (realized and unrealized)				(3,176,854)
To adjust investments balance to fair value at 6/30/2022				
3 Gain/Loss (unrealized/realized)				(3,594,108)
Net Postion			3,594,108	
To adjust for the reversal of the PY investment FV difference				
4 Net position - 6/30/2021			(27,248,000)	
Capital appropriations				27,248,000
To adjust net position at 6/30/2021 for the impact of the entry booked in CY related to the change in accounting for capital appropriations				
Net impact	$ (5,684,429)	$ (169,943)	$ (25,991,523)	$ 20,477,038

Management believes the uncorrected misstatements are immaterial to the financial statements. Uncorrected misstatements could be potentially material to future financial statements.

Summary of misstatements

Description	Assets	Liabilities	Net Position	Change in Net Position
Corrected misstatements				
1 Long-term debt		(44,000,000)		
Lease payable		44,000,000		
To reclassify the liability amount associated with financed purchases from lease payable to long-term debt				
2 Net Position - Unrestricted			(23,410,000)	
Net Position - Restricted -Expandable			23,410,000	
To adjust unrestricted net position for the amount related to Education Stabilization Fund Grant that was incorrectly restricted				
Net impact	$ -	$ -	$ -	$ -

Other required communications

Professional standards require that we communicate the following matters to you, as applicable.

- Going concern matters
- Fraud and noncompliance with laws and regulations
- Significant deficiencies and material weaknesses in internal control over financial reporting
- Use of other auditors
- Use of internal audit
- Related parties and related party transactions
- Significant unusual transactions
- Disagreements with management
- Management's consultations with other accountants
- Significant issues discussed with management
- Significant difficulties encountered during the audit
- Other significant findings or issues that are relevant to you and your oversight responsibilities
- Modifications to the auditor's report
- Other information in documents containing audited financial statements

Quality of accounting practices

Accounting policies	Accounting policies are disclosed in Note 2 of the financial statements and appear appropriate. NSHE adopted GASB 87 as of July 1, 2021.
Accounting estimates	Significant accounting estimates include the fair value of alternative investments, OPEB and PERS liability, as well as OPEB and PERS deferred inflows/outflows. Management has informed us that in determining the appropriateness of the fair value of alternative investments, they evaluated all significant information from investment fund managers, including audited financial statements for all funds invested in, as well as the ownership information. Management also evaluated all significant information from the actuarial reports and allocation schedules for the purposes of management analysis of the net pension and OPEB liabilities, as well as deferred inflows/outflows.
Disclosures	Financial statements and related disclosures appear to be clear and complete. Disclosures are presented with overall neutrality, consistency and clarity.

Internal control matters

Responsibility

We are responsible for obtaining reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we express no such opinion. Control deficiencies that are of a lesser magnitude than a significant deficiency will be communicated to management.

Use of the work of other auditors

Component	Other Auditor	Benchmark* Total Assets	Benchmark* Operating Revenues	Response**
Grant Thornton				
UNLV Medical	Audit is performed by GT	4%	46%	Comprehensive
Other Unaffiliated Auditors				
UNR Foundation	Audit is performed by other firm	41%	18%	Analytical
UNR WPAA	Audit is performed by other firm	1%	0%	Analytical
DRI Foundation	Audit is performed by other firm	0%	1%	Analytical
DRI Research Park	Audit is performed by other firm	0%	0%	Analytical
TMCC Foundation	Review is performed by other firm	1%	5%	Analytical
WNC Foundation	Audit is performed by other firm	1%	1%	Analytical
GBC Foundation	Audit is performed by other firm	1%	1%	Analytical
UNLV Foundation	Audit is performed by other firm	46%	24%	Analytical
UNLV Research Foundation	Audit is performed by other firm	2%	2%	Analytical
Rebel Golf Foundation	Audit is performed by other firm	1%	0%	Analytical
UNLV Alumni Association	Audit is performed by other firm	0%	1%	Analytical
UNLV Rebel Football Foundation	Review is performed by other firm	0%	0%	Analytical
UNLV Rebel Soccer Foundation	Review is performed by other firm	0%	0%	Analytical
UNLV Singapore	Audit is performed by other firm	1%	0%	Analytical
CSN Foundation	Audit is performed by other firm	1%	1%	Analytical
NSC Foundation	Audit is performed by other firm	1%	1%	Analytical
SRO Total		100%	100%	

* The benchmark is based on the percentage of the System Related Organization's consolidated assets and operating revenues, respectively. Our firm audited approximately 4% and 46%, respectively.

** A comprehensive response consists of an audit of the component's financial information, planned within the context of our overall audit of the Organization. A targeted response consists of the component auditor performing specific audit procedures that are determined by our firm to respond to identified risks.

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Use of the Work of Others

Specialists

Management relied on the work of Segal Consulting for the PERS actuarial assumptions used to arrived at the net pension liability and the pension related deferred inflows and outflows of resources. Similarly, management relied on the work of Aon Consulting for the OPEB actuarial assumptions used to arrive at the net other post-employment benefit liability and the other post-employment benefit related deferred inflows and outflows of resources. GT utilized our internal valuation group to determine the reasonableness of the actuarial assumptions used by PERS and OPEB actuarial specialists.

Commitment to promote ethical and professional excellence

We are committed to promoting ethical and professional excellence. To advance this commitment, we have put in place a phone and internet-based hotline system.

The Ethics Hotline (1.866.739.4134) provides individuals a means to call and report ethical concerns.

The EthicsPoint URL link can be accessed from our external website or through this link:

https://secure.ethicspoint.com/domain/en/report_custom.asp?clientid=15191

Disclaimer: EthicsPoint is not intended to act as a substitute for a company's "whistleblower" obligations.

Technical updates - GASB

Selected pronouncements effective for the year ending June 30, 2022, or subsequent periods - GASB

Title	Effective date
GASB 91 – Conduit Debt Obligations	Periods beginning after December 15, 2021
GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements	Periods beginning after June 15, 2022
GASB 96 – Subscription-Based Information Technology Arrangements	Periods beginning after June 15, 2022
GASB 98 – The Annual Comprehensive Financial Report	Periods ending after December 15, 2021
GASB 99 – Omnibus 2022	Varies by topic
GASB 100 – Accounting Changes and Error Corrections	Periods beginning after June 15, 2023
GASB 101 – Compensated Absences	Periods beginning after December 15, 2023

** Reflective of effective date deferral under GASB 95.

GASB Statement 91, *Conduit Debt Obligations*

Summary	Potential Impact
• Eliminates the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. • Defines conduit debt obligations as a debt instrument issued in the name of a state or local government (the issuer) that is for the benefit of a third party primarily liable for the repayment of the debt instrument (the third-party obligor), that includes specific characteristics. • An issuer should not recognize a conduit debt obligation as a liability. • To the extent the issuer has made a limited commitment with respect to the conduit debt obligation, the issuer should recognize a lability associate with the additional commitment if qualitative factors indicate it is more likely than not that the issuer will support one or more debt service payments. • The issuer of conduit debt obligations should not report arrangements as leases, regardless of whether the arrangement is labeled or otherwise referred to as a lease. If the arrangement meets the definition of a Service Concession Arrangement, however, the SCA should be reported in accordance with the relevant guidance. • Effective for periods beginning after December 15, 2021, with early adoption encouraged. Changes to adopt this standard should be applied retroactively.	• Universities should inventory outstanding conduit debt obligations, including related commitments and arrangements, and compare the associated terms against the updated definitions within this Standard.

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GASB Statement 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

Summary

- Defines a PPP as an arrangement in which a government (the transferor)
  - contracts with an operator (a governmental or nongovernmental entity) to provide public services
  - by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time
  - in an exchange or exchange-like transaction.
- Transferor records the underlying PPP asset and/or a receivable for installment payments to be received from operator, with a related deferred inflow of resources.
- Defines an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period in an exchange or exchange-like transaction.
  - In an APA with multiple components, each component shall be recognized as a separate arrangement.
- Effective for fiscal years beginning after June 15, 2022, with early adoption encouraged.

Potential Impact

- Universities often engage in these type of arrangements to expand student housing, parking, retail space, or some combination of these types of revenue-generating spaces. This new guidance clarifies the accounting for these types of arrangements, as compared to service concession arrangements, lease agreements or other types of transfers. Management should identify which agreements are currently in place for which accounting may need to restated. Management should also consider these updated definitions for any new transactions that may be in process, to ensure those arrangements are structured and reported in accordance with these new provisions.

GASB Statement 96, *Subscription-Based Information Technology Arrangements*

Summary

- Defines subscription-based information technology arrangements (SBITA) as a contract that conveys control of the right to use another party's IT software,
  - alone or with underlying tangible IT assets,
  - For a period of time (noncancelable period, plus options to extend),
  - In an exchange or exchange-like transaction.
- Government should recognize a right-to-use subscription asset and a corresponding subscription liability
  - Measured as the present value of expected subscription payments
  - Discounted using the rate the SBITA vendor charges, or the incremental borrowing rate
- Subscription asset to be amortized over the subscription term
- Activities associated with a SBITA, other than subscription payments, should be grouped into the following three stages and costs accounted for accordingly:
  - Preliminary project stage – expensed as incurred
  - Initial implementation stage – capitalized as an addition to the subscription asset
  - Operation and additional implementation stage – expensed as incurred, unless they meet specific capitalization criteria
- Effective for fiscal years beginning after June 15, 2022, with early adoption encouraged.

Potential Impact

- For those universities using subscription-based IT arrangements, this standard could have a significant impact on the financial statements of the university upon adoption. As with the new lease standard, management should consider the impact on financial covenants, as well as ensuring a complete inventory of existing agreements that will be subject to the new accounting and disclosures.

GASB Statement 98, The Annual Comprehensive Financial Report

Summary	Potential Impact
• This Statement establishes the term *annual comprehensive financial report* and its acronym *ACFR.* That new term and acronym replace instances of *comprehensive annual financial report* and its acronym in generally accepted accounting principles for state and local governments. • This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. • Effective for fiscal years ending after December 15, 2021, with early application encouraged.	• Universities that prepare an annual report or make reference to being a component unit of another governmental entity that prepares such an annual report, should update language to include the new term and, if applicable, the related acronym.

GASB Statement 99, Omnibus 2022

Summary

- This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements
  - Establishes accounting and financial reporting requirements for exchange and exchange-like financial guarantees, other derivative instruments, and termination of hedge accounting
  - Clarifies selected guidance for leases and SBITAs as it relates to purchase and termination options, short-term arrangements, variable payments and incentives
  - Clarifies selected guidance for PPP arrangements as it relates to variable payments and remeasurement
  - Updates the date for replacement of LIBOR
  - Other various clarifications related to SNAP distributions, disclosure of nonmonetary transactions, and terminology updates

- Effective for fiscal years beginning after June 15, 2022 for provisions related to leases, PPPs and SBITAs
- Effective for fiscal years beginning after June 15, 2023 for provisions related to financial guarantees and the classification and reporting of derivative instruments
- Effective upon issuance for all other provisions

Potential Impact

- The practice issues addressed within this Omnibus are very narrow. Universities should review the clarifications provided for applicability, and update presentation and disclosures, as needed.

GASB Statement 100, Accounting Changes and Error Corrections

Summary	**Potential Impact**

• This Statement defines types of accounting changes as:
  • Changes in accounting principles
  • Changes in accounting estimates
  • Changes to or within the financial reporting entity
  • Corrections of an error (not an accounting change)
• For each type, accounting and reporting requirements, as well as disclosures are outlined
• Effective for fiscal years beginning after June 15, 2023, with early application encouraged.
	• Universities should review the definitions of various accounting changes and update presentation and disclosures, as needed.

GASB Statement 101, Compensated Absences

Summary

- This Statement updates the recognition and measurement guidance for compensated absences to better meet the needs of financial statement users.
- Requires recognition of a liability for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means
- Liability should be recognized for leave attributable to services already rendered, if the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means
- Amends existing requirements to disclose the gross increases and decreases in a liability for compensated absences to allow disclosure of only the net change in the liability
- Effective for fiscal years beginning after December 15, 2023, with early application encouraged.

Potential Impact

- This guidance will have a significant impact on the recognition of compensated absences. Universities should start early on to inventory all compensated absence programs, including the following examples:
  - vacation and sick leave
  - PTO
  - holidays
  - parental leave and
  - sabbatical leave

  These programs should be evaluated against the updated recognition criteria, exceptions to general recognition, and measurement provisions.