



PRESENTATION TO THOSE CHARGED WITH GOVERNANCE

2023 Annual Audit Results Presentation

Nevada System of Higher Education

November 2023

DRAFT – status to date

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.

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Audit timeline & scope

Spring 2023	Client continuance	<ul style="list-style-type: none"> • Client reacceptance • Issue engagement letter • Conduct internal client service planning meeting, including coordination with IT audit support team
May – August 2023	Planning	<ul style="list-style-type: none"> • 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 2023	Preliminary risk assessment procedures	<ul style="list-style-type: none"> • Develop audit plan that addresses risk areas • Update understanding of internal control environment
May – September 2023	Interim fieldwork	<ul style="list-style-type: none"> • Perform walkthroughs of business processes and controls • Performed compliance procedures specific to federal major programs
September 2023 – March 24	Final fieldwork	<ul style="list-style-type: none"> • Perform final phase of audit and year-end fieldwork procedures • Present results to the Audit Committee • Issue our opinion after receipt and analysis of open items inclusive of PEBPs June 30, 2023 audited financial statements • 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, 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 a faculty medical practice plan)

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

Procedures

Management override of controls (presumed fraud risk)

- We obtained a complete population of journal entries for in-scope entities 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 were aware of the possibility of accounting misstatements resulting from adjusting or other entries made during the period.
- As a result of the procedures performed, nothing was noted that indicated that journal entries were used to override internal controls.

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	Procedures
Federal, local, and other grants and contracts revenues – operating and non-operating	<ul style="list-style-type: none"> Performed detailed testing of grant revenue by selecting a statistical sample and vouching each selection to a grant contract, request for reimbursement, receipt of payment and underlying support for the expense 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 it was appropriately recorded.
Other revenue (Sales and Services of educational departments; Sales and services of auxiliary enterprises)	<ul style="list-style-type: none"> 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 to identify unusual fluctuations and substantive testing to ensure proper cutoff.
Fair value of alternative investments	<ul style="list-style-type: none"> Confirmed existence of investment holdings directly with custodians. Tested management's process of valuing alternative investments. Reviewed completeness and accuracy of footnote disclosures.
OPEB and PERS liability; deferred outflows/inflows	<ul style="list-style-type: none"> Will reviewed the analysis of PERS and OPEB balances based on the underlying audited financials statements and allocations schedules prepared by the actuary. Will assess the reasonableness of actuarial assumptions: discount factor, trend rates and cash flows, amongst others. Tested participant contribution detail. Will reviewed the financial statement disclosures.

Significant risks and other areas of focus

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

Other area of interest	Procedures
Tuition revenue	<ul style="list-style-type: none"> • Obtained the rates in effect for the year under audit and used this information to set expectation for tuition and fees revenue. Performed 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.
Implementation of GASB Statement No. 96, <i>Subscription-Based Information Technology Arrangements</i> .	<ul style="list-style-type: none"> • Performed procedures to ensure completeness of the subscription contracts analyzed by management as part of GASB 96 implementation. • Selected a sample of subscriptions and recalculated management's schedules to ensure right of use assets/lease liability were reasonably stated as of June 30, 2023. GT tested certain assumptions made by management for reasonableness (discount rate, subscription 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 2023

Major program	2023 Expenditures
Dept of Educ: <i>Student financial assistance cluster</i>	\$381 million
Dept of Treasury: <i>State and Local Fiscal Recovery Funds (COVID-19)</i>	\$61.8 million
Dept of Educ: <i>HEERF (COVID-19)</i>	\$39.2 million
Dept of Educ: <i>TRIO Cluster</i>	\$10.9 million
Dept of Health and Human Svcs: <i>Opioid Response Grants</i>	\$10.4 million
Dept of Health and Human Svcs: <i>Congressional Directives</i>	\$3.1 million

Area 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	<p>Perform compliance and controls procedures in accordance with the guidance of US Office of Management and Budget's 2023 Compliance Supplement including:</p> <ul style="list-style-type: none"> • 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. <ul style="list-style-type: none"> • 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



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	Increase (Decrease) to:			
	Assets	Liabilities	Net Position	Change in Net Position
<u>Uncorrected misstatements identified by management</u>				
<u>1</u> Endowment investments	6,078,309			
Gain (realized and unrealized)				6,078,309
<i>To adjust investments balance to fair value at 6/30/2023</i>				
<u>2</u> Cash	(1,996,363)			
Other Assets	(5,500)			
Total Liabilities		(186,139)		
Fiduciary Net Position			(1,815,724)	
<i>To remove the fiduciary activity from NSHE's books and create a new fiduciary fund</i>				
Net impact	\$ 4,076,446	\$ (186,139)	\$ (1,815,724)	\$ 6,078,309

Management believes the uncorrected misstatements are immaterial to the financial statements. Uncorrected misstatements could be potentially material to future financial statements. As such, we request that these uncorrected misstatements be corrected.

Omitted disclosures

1 Condensed combining information for blended component unit was omitted due to its immaterial nature

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 96 as of July 1, 2022.

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.



Discretely Presented Component Units

Component	Other Auditor	Benchmark	
		Total Assets	Operating Revenues
Grant Thornton			
UNLV Medical	Audit is performed by GT	3%	33%
Other Unaffiliated Auditors			
CSN Foundation	Audit is performed by other firm	1%	1%
DRI Foundation	Audit is performed by other firm	0%	1%
DRI Research Foundation	Audit is performed by other firm	0%	0%
GBC Foundation	Audit is performed by other firm	1%	1%
NSC Foundation	Audit is performed by other firm	1%	3%
TMCC Foundation	Audit is performed by other firm	1%	1%
UNLV Foundation	Audit is performed by other firm	42%	18%
UNLV Research Foundation	Audit is performed by other firm	3%	4%
Rebel Golf Foundation	Review is performed by other firm	1%	0%
UNLV Alumni Association	Review is performed by other firm	0%	1%
UNLV Rebel Football Foundation	Audit is performed by other firm	0%	0%
UNLV Rebel Soccer Foundation	Audit is performed by other firm	0%	0%
UNLV Singapore Limited	Audit is performed by other firm	0%	0%
UNR Foundation	Audit is performed by other firm	45%	36%
UNR WPAA	Audit is performed by other firm	1%	0%
WNC Foundation	Review is performed by other firm	1%	1%
SRO Total		100%	100%

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 Segal 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, 2023, or subsequent periods - GASB

Title	Effective date
GASB 100 – Accounting Changes and Error Corrections	Periods beginning after June 15, 2023
GASB 101 – Compensated Absences	Periods beginning after December 15, 2023

GASB Statement 100, Accounting Changes and Error Corrections

Summary

- 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.

Potential Impact

- 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.