Memorandum

TO: Chair James Hardesty  
Vice-Chair Chancellor Patty Charlton  
Ad Hoc Committee on Higher Education Funding  
Nevada System of Higher Education  
2601 Enterprise Road  
Reno, Nevada 89512-1666

FROM: Nate Johnson, Senior Affiliate, HCM Strategists

DATE: April 15, 2024

SUBJECT: HCM Strategists Review of Self-Supporting Accounts

Dear Chair Hardesty and Vice-Chair Chancellor Charlton:

As part of its contract to advise the Nevada System of Higher Education (NSHE) System Administration Office on potential higher education funding formulas, HCM Strategists also engaged to review NSHE’s policies on self-supporting accounts. This review was to consider Legislative Audit report LA24-03, the system’s response to that audit, and other states’ practices.

Our review finds that NSHE’s current policies, including the policy changes adopted at the September 2023 Board of Regents meeting, are responsive to the concerns articulated in the audit and consistent with practices in other states. No additional reporting requirements or policies are immediately needed, and focus should be on following through on the commitments already made to improve internal processes and reports. If time and staff capacity permits, NSHE should consider creating a matrix of funding sources and uses along the lines of the model from the City University of New York indicated in our March 19 presentation.
What are Self-Supporting Accounts?
Self-supporting accounts in the Nevada System of Higher Education (NSHE) are funding categories that exist outside of the state-appropriated or grant-funded accounts and are characterized by having a specific revenue source and expenditure purpose. These accounts are a Nevada-specific classification grounded in state law and practice and do not include auxiliaries such as housing, sponsored research, or fees with specific legal restrictions. They are used internally by institutions to manage budgets for specific purposes and can range from small amounts to several million dollars. The accounts encompass a variety of programs, including those related to student fees such as summer session fees, assessment fees, library fines, as well as other revenue sources like clinical/patient care, ticket sales for events, facilities rental, and faculty start-up packages.

What problems did the Legislative Audit find with self-supporting accounts?
The LA-24-03 performance audit, mandated by Assembly Bill 416 (Chapter 467, Statutes of Nevada 2021), focused on self-supporting and reserve accounts for fiscal years 2018 to 2021. While there was no finding of fraud or diversion of funds for purposes other than support of NSHE institutions and students, the audit criticized the level of oversight and variations in internal control systems across NSHE institutions, leading to potentially inappropriate financial activities. This was attributed to the Board of Regents providing institutions with operational latitude, but with often vague or insufficient policies and guidelines. The audit found instances of expenditures being moved to state-supported accounts without ensuring consistency in activity type, state funds not being reverted according to state law, and uses of student fees that may not have been consistent with Board policies. Additionally, institutions sometimes commingled restricted and unrestricted revenues, and reports to the Board sometimes lacked useful, accurate, or complete information.

How did NSHE respond to the audit?
The audit included 13 findings requiring a response from NSHE and NSHE accepted all of those findings. The audit recommended several actions to improve accountability and appropriate use of self-supporting funds, which NSHE accepted. The policy revisions adopted at the September 28, 2023, Board of Regents meeting to the Board of Regents Handbook and to the NSHE Policy and Procedures Manual appear to have satisfied the requirement that NSHE provide specific policy language in response to the audit by October 10, 2023.

The policy revisions addressed the audit recommendations by providing clarity, additional controls, and increased oversight. This includes defining reporting standards, increasing transparency through regular reporting to the Board, enhancing documentation standards, and ensuring compliance with state and federal regulations.

Seven of the 13 recommendations (1-3, 5, 7, 11, and 13) concerned transparency and controls related to transfer of funds among state-supported and self-supporting accounts. The new board policies define the transactions of concern and require consistent documentation and review.
consistent with the intended use of those funds. NSHE also committed to initiating the report on fund transfers centrally, and sending to campuses for review, rather than the other way around. The first such report is expected in December 2024 (for fiscal year 2023-24).

Another four recommendations (4, 6, 8 and 12) specifically addressed student fee revenue. Here, too, the revised board policies clarify fee definitions and add reporting requirements. These changes will also be reflected in reports starting December 2024 (for fiscal year 2023-24).

Two of the recommendations (9 and 10) were related to clarification of reserve and contingency accounts. The revised Board policies clarify these definitions and require institutions to clearly label accounts as contingency or reserve. The new templates and reports required for this will be developed in consultation with institutions and are not expected to be completed this year.

Our review of the audit, NSHE’s response, and the policy changes adopted indicate that the response to concerns about self-supporting accounts was appropriate and is on track.

How Does Nevada Compare to Other States?
Nevada’s system of “self-supporting accounts” is unique, and there is no exact parallel in other states. While higher education systems and institutions have similar functions across the United States, the language states use to describe and account for those functions differs. The term “self-supporting accounts” as used in Nevada is specific to Nevada policy and practice. These accounts cross over many of the standard revenue and expenditure categories and reflect the state’s policy and philosophy as to how taxpayer-supported, student-supported, and externally supported budgets should be separated and reported.

We reviewed a range of policies and reports in systems like Nevada’s that include a range of institutions, from community colleges to research universities, and that have direct governing responsibilities for those institutions (i.e. no institutional boards of trustees). These include the Hawai’i Board of Regents, the Georgia Board of Regents, and both the State University of New York (SUNY) and the City University of New York (CUNY). Each of these systems has policies and reports related to different budget categories and accounts, and while many of the specific categories are similar (e.g. “library fines”), none of them has a grouping exactly like Nevada’s “self-supporting accounts.”

These states/systems, like Nevada, had policies and budget reports grounded in their own priorities and traditions, and these appeared no more or less appropriate to their goals. There was nothing outstanding about their policy approaches that we would recommend for Nevada at this time, especially given the policy and reporting changes already in process in response to the legislative audit. If an issue related to a specific fee or account arose in one of these states (e.g. transportation fees or indirect research revenue), we would advise them to look at Nevada’s policies as a peer system, just as we would advise Nevada to do with them.

In terms of communication, as noted in our March 19 presentation, we pointed out an easy-to-follow matrix of sources and uses employed by the City University of New York (see attached). A
tool like this, substituting Nevada’s funding categories for CUNY’s, would be a helpful way to communicate about the policies and practices already in place.

We have no other recommendations based on other state practices and find that NSHE has already addressed the key concerns of the legislative audit. Thank you for the opportunity to engage with you on this project.

Please let us know if you have any follow-up questions or concerns.