

COMPLIANCE SECTION

ET Highway

The ET Highway runs east-west between Highways 93 and 95 and borders the mysterious Nevada Test Site and Area 51. This might explain the eerie sightings in the sky, but residents of Rachel prefer to think of them as aliens. Visitors to Rachel can visit the Little A'Le'Inn for a juicy hamburger, cold drink, and a side of UFO lore.

Photo credits: Chris Moran and Sydney Martinez
TravelNevada



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**Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Ronald Knecht, MS, JD & PE
State Controller
Carson City, Nevada

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Nevada, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the State of Nevada's basic financial statements, and have issued our report thereon dated March 14, 2018. Our report includes a reference to other auditors who audited the financial statements of the Nevada System of Higher Education, a discretely presented component unit; the Housing Division Enterprise Fund, the Self Insurance and Insurance Premiums Internal Service Funds, the Pension Trust Funds and the Other Employee Benefit Trust Fund – State Retirees' Fund, the Nevada College Savings Plan – Private Purpose Trust Fund, the Retirement Benefits Investment Fund – Investment Trust Fund, and the Division of Museums and History Dedicated Trust Fund – Special Revenue Fund, as described in our report on the State of Nevada's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by some of those auditors. The financial statements of the Division of Museums and History Dedicated Trust Fund, the Pension Trust Funds, the Insurance Premiums Internal Service Fund and the Retirement Benefits Investment Fund were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Nevada's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Nevada's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Nevada's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant

deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as findings 2017-A and 2017-B to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiency described in the accompanying schedule of findings and responses as finding 2017-C to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Nevada's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State of Nevada's Response to Findings

The State of Nevada's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The State of Nevada's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State of Nevada's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Nevada's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Reno, Nevada
March 14, 2018

**STATE OF NEVADA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

Findings Relating to the Financial Statements Reported in Accordance with GAGAS:

**2017-A Prior Period Adjustment of Payroll Expense
Material Weakness**

Criteria: Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Properly calculating payroll accruals and expenditures/expenses are key components of effective internal control over financial reporting.

Condition: A prior period adjustment of approximately \$4,774,900 was required to correct 2016 payroll expense which was incorrectly recorded in 2017.

Cause: Internal controls in place did not ensure that accrued payroll at year end was calculated and reported accurately.

Effect: In the prior year, fund balance in the Highway Fund was overstated by approximately \$4,774,900.

Recommendation: We recommend the State of Nevada enhance internal controls to ensure accrued payroll is calculated and reported accurately.

Views of Responsible Officials: Management agrees with this finding.

**STATE OF NEVADA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

Findings Relating to the Financial Statements Reported in Accordance with GAGAS:

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| 2017-B | Prior Period Adjustment of Interest and Investment Earnings Material Weakness |
| <i>Criteria:</i> | Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Properly reporting interest and investment earnings is a key component of effective internal control over financial reporting. |
| <i>Condition:</i> | A prior period adjustment of approximately \$3,022,000 was required to remove interest and investment income that was reported in the year ended June 30, 2017, but should have been reported in the year ended June 30, 2016. |
| <i>Cause:</i> | Internal controls in place did not ensure that interest and investment earnings were reported in the proper period. |
| <i>Effect:</i> | In the prior year, net position in the Unemployment Compensation Fund was understated by approximately \$3,022,000. |
| <i>Recommendation:</i> | We recommend the State of Nevada enhance internal controls to ensure that interest and investment earnings are reported in the proper period. |
| <i>Views of Responsible Officials:</i> | Management agrees with this finding. |

**STATE OF NEVADA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2017**

Findings Relating to the Financial Statements Reported in Accordance with GAGAS:

**2017-C Monthly Bank Reconciliation
 Significant Deficiency**

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| <i>Criteria:</i> | Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Properly reconciling bank accounts is a key component of effective internal control over financial reporting. |
| <i>Condition:</i> | The June 30, 2017 bank reconciliation for the outside bank accounts includes an unexplained variance of more than \$19,000,000 between the book balance and the bank balance. |
| <i>Cause:</i> | The Controller's office did not have adequate internal controls to ensure bank reconciliation variances were researched and resolved in a timely manner. |
| <i>Effect:</i> | The cash balance recorded in the State of Nevada's general ledger may be incorrect. |
| <i>Recommendation:</i> | We recommend the Controller's office enhance internal controls to ensure that bank reconciliation variances are researched and resolved in a timely manner. |
| <i>Views of Responsible Officials:</i> | Management agrees with this finding. |