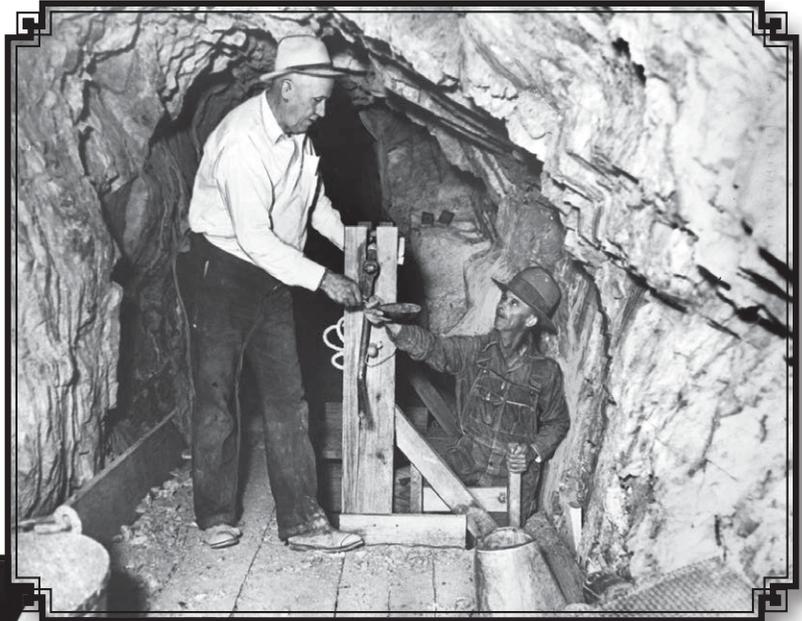


# COMPLIANCE SECTION

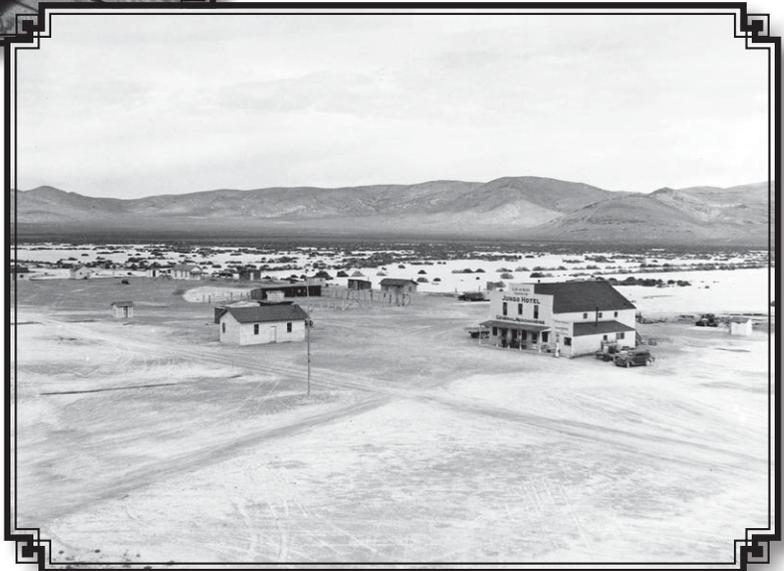
Workers extract gold ore from the Jumbo Mine in Jumbo, Nevada (1937).



A worker at the Jumbo Mine in Jungo, Nevada pours mercury to bond with free gold particles in a practice called amalgamation (1936).

(Photo's Permission Granted by:  
Nevada Historical Society)

A bird's-eye view of Jungo, Nevada in Humboldt County, c. 1937. A ghost town today, Jungo was home to a prominent gold-mining operation in the 1930s.





CPAs & BUSINESS ADVISORS

**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, 2016, 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 December 21, 2016. Our report includes a reference to other auditors who audited the financial statements of the Nevada System of Higher Education and the Colorado River Commission, discretely presented component units; 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 2016-A, 2016-B, and 2016-C 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.

### **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 response was 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  
December 21, 2016





**STATE OF NEVADA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2016**

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

**2016-C Highway Fund - Accounts Payable, Deferred Inflow of Resources, and Inventory Material Weakness**

*Criteria:* Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Proper reporting of accounts payable, deferred inflow of resources, and inventory is a key aspect of a strong system of internal control.

*Condition:* During our audit procedures, we became aware of several transactions in the Highway Fund that were not recorded in the appropriate accounting period under the modified accrual basis of accounting. We also became aware of a transaction that was posted incorrectly due to a formula error on an inventory spreadsheet.

*Cause:* The internal controls in place did not ensure that receipts and payments after year end were recorded in the accounting period in which the goods or services were received or provided. In addition, the internal controls in place did not ensure that inventory was accurately reported.

*Effect:* Prior to adjustment, fund balance in the Highway Fund was overstated by \$17,190,328 as a result of unrecorded contracts payable and understated by \$1,012,347 due to unrecorded revenues. In addition, inventory was overstated by \$3,410,142.

*Recommendation:* We recommend the State of Nevada enhance internal controls to ensure deferred inflow of resources and accounts payable are recorded in the accounting period in which the goods or services are received or provided. We also recommend the State of Nevada enhance internal controls to ensure inventory is accurately reported.

*Views of Responsible Officials:* Management agrees with this finding.



OFFICE OF THE  
STATE CONTROLLER

**CORRECTIVE ACTION PLAN FOR AUDIT FINDING**

**Audit Finding 2016-A**

**Finding:** A prior period adjustment of approximately \$48,480,000 was required to correct the amortization of bond premiums and discounts when the State of Nevada converted from the straight line method to the interest method of amortization.

**Recommendation:** The State of Nevada enhance internal controls to ensure the interest method is used when calculating and recording amortization of bond premiums and discounts.

**Agency Response**

**Does the Agency Agree with Finding:** Yes

**Additional Comments:** None

**Corrective Action Taken or to be Taken**

**Action:** The Controller's Office identified and corrected the error in fiscal year 2016. As a result, the Controller's Office purchased software for tracking long-term debt obligations, and the software calculates amortization using the interest method.

**Date of Completion or Estimated Completion:** Completed July 2016

**Department or Agency Responsible for Corrective Action Plan**

**Agency:** Controller's Office  
**Contact:** Brenda Laird, CAFR Accountant II  
101 N. Carson Street, Suite 5  
Carson City, NV 89701  
775-684-5621  
blaird@controller.state.nv.us



**OFFICE OF THE  
STATE CONTROLLER**

**CORRECTIVE ACTION PLAN FOR AUDIT FINDING**

**Audit Finding 2016-B**

**Finding:** A prior period adjustment of \$4,085,616 was required to correct a journal entry made in 2014-15 allocating a portion of an investment loss to the Highway Fund.

**Recommendation:** The State of Nevada enhance internal controls to ensure the allocation of investment losses among the various funds is accurate.

**Agency Response**

**Does the Agency Agree with Finding:** Yes

**Additional Comments:** This particular instance was unique in that the Treasurer's Office deferred recognition of an unusually large investment loss on a cash basis to the participating funds over a period of years, while the losses were recognized for financial reporting in accordance with Governmental GAAP. In the normal course of business, insignificant investment losses are allocated to the funds during the Treasurer's quarterly interest distribution, and not deferred.

**Corrective Action Taken or to be Taken**

**Action:** The Controller's Office identified and corrected the error in fiscal year 2016. In addition, a procedure will be established to ensure any future allocations of large and unusual investment losses, where the decision is made to defer recognition in the distribution process, are properly recorded among the various funds.

**Date of Completion or Estimated Completion:** Error corrected February 2016 and procedure estimated to be completed January 2017.

**Department or Agency Responsible for Corrective Action Plan**

**Agency:** Controller's Office  
**Contact:** Brenda Laird, CAFR Accountant II  
101 N. Carson Street, Suite 5  
Carson City, NV 89701  
775-684-5621  
blaird@controller.state.nv.us



BRIAN SANDOVAL  
Governor

STATE OF NEVADA  
DEPARTMENT OF TRANSPORTATION  
1263 S. Stewart Street  
Carson City, Nevada 89712

RUDY MALFABON, P.E., *Director*

## **CORRECTIVE ACTION PLAN FOR AUDIT FINDING**

### **Audit Finding 2016-C1**

**Finding:** Several transactions in the Highway Fund were not recorded in the appropriate accounting period under the modified accrual basis of accounting.

**Recommendation:** The State of Nevada enhances internal controls to ensure accounts receivable and accounts payable are recorded in the accounting period in which the goods or services were received or provided.

### **Agency Response**

**Does the Agency Agree with Finding:** Yes

**Additional Comments:** None

### **Corrective Action Taken or to be Taken**

**Action:** Nevada Department of Transportation (NDOT) will raise the awareness of the State's fiscal year cutoff for financial reporting purpose. NDOT Accounting Division will begin a log for the transactions posted to the new fiscal year that should post to the old fiscal year. Such information will be provided to the Controller's Office Financial Reporting to make an adjusting entry during the Highway Fund preparation.

Besides providing adequate training, an additional procedure will be added to cross check for payments received between July 1<sup>st</sup> and Aug 31<sup>st</sup> posted in the system against the Accounts Receivable report.

**Date of Completion or Estimated Completion:** By November 1<sup>st</sup>, 2017

### **Department or Agency Responsible for Corrective Action Plan**

**Agency:** Nevada Department of Transportation, Accounting Division  
**Contact:** Hua Riley, Chief Accountant  
1263 S. Stewart Street  
Carson City, NV 89712  
775-888-7451



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RUDY MALFABON, P.E., *Director*

## **CORRECTIVE ACTION PLAN FOR AUDIT FINDING**

### **Audit Finding 2016-C2**

**Finding:** NDOT's inventory was overstated by approximately \$3,400,000 due to a formula error.

**Recommendation:** The State of Nevada enhances internal controls to ensure inventory is accurately reported.

### **Agency Response**

**Does the Agency Agree with Finding:** Yes

**Additional Comments:** None

### **Corrective Action Taken or to be Taken**

**Action:** NDOT's Inventory Report is redesigned to include a comparison of current year vs. prior year and an explanation for each significant change.

**Date of Completion or Estimated Completion:** Completed December 2016

### **Department or Agency Responsible for Corrective Action Plan**

**Agency:** Nevada Department of Transportation, Equipment Division

**Contact:** Teres Dawson, Admin Services Office 2  
310 Galletti Way,  
Sparks, NV 89431  
775-834-8404

**2015-A            Amortization of the Gain/Loss on Refunding  
                         Significant Deficiency**

*Initial Fiscal Year Finding Occurred: 2015*

*The State of Nevada's policy to refund debt on the first available call date, the State of Nevada calculated the life of the old debt as ending on the call date. The state of Nevada became aware of a recently issued Question and Answer that clarified that the life of the old debt should run through the original end date of the issue. In prior years, net position in the government wide financial statements was understated and amortization expense was overstated and required that a material prior period adjustment be made to report the correct amount of net position and amortization expense..*

*Status: Corrected*

**2015-B            Capital Assets  
                         Significant Deficiency**

*Initial Fiscal Year Finding Occurred: 2015*

*During our testing of capital assets, we identified a capital asset addition during fiscal year 2015 was recorded as an asset in 2012 and inadvertently recorded again in 2015 as part of the completed project. Thus capital assets were overstated and required that a material adjustment be made to report the correct amount of capital assets.*

*Status: Corrected*

