

COMPLIANCE SECTION

1940 Ford 4 Door Sedan

Owner Ray Pasch, Carson City, NV, displayed at the Rockabilly Riot



Images by: Suzanne Anderson
one-of-a-kind-stuff@hotmail.com



**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 Catherine Byrne, CPA
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, 2019, 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 January 31, 2020. 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 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.

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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 a 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. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as findings 2019-001, 2019-002, 2019-003, 2019-004, 2019-005, 2019-006, and 2019-007 that we consider to be material weaknesses.

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 them.

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
January 31, 2020

**STATE OF NEVADA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

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

**2019-001 Prior Period Adjustment of Highway Fund Payables
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Proper reporting accounts payable is a key component of effective internal control over financial reporting.
<i>Condition:</i>	A prior period adjustment of \$3,510,112 was required to correct certain payable amounts, which were inadvertently recorded at year end.
<i>Cause:</i>	Internal controls in place in 2018, did not ensure that payables were reported accurately.
<i>Effect:</i>	In 2018, accounts payable in the Highway Fund were overstated by \$3,510,112.
<i>Recommendation:</i>	We recommend the State of Nevada enhance internal controls to ensure accounts payable are reported accurately.
<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, 2019**

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

**2019-002 Prior Period Adjustment of Permanent School Fund Receivable
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Properly reporting Permanent School Fund receivables is a key component of effective internal control over financial reporting.
<i>Condition:</i>	A prior period adjustment of \$3,913,983 was required to correct 2018 receivables which was miscalculated and therefore overstated in the 2018 financial statements.
<i>Cause:</i>	Internal controls in place in 2018 did not ensure that Permanent School Fund receivables were properly calculated and reported.
<i>Effect:</i>	At June 30, 2018, fund balance in the Permanent School Fund was overstated by \$3,913,983.
<i>Recommendation:</i>	We recommend the State of Nevada enhance internal controls to ensure Permanent School Fund receivables are calculated and reported accurately.
<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, 2019**

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

**2019-003 State Agency Fund for Bonds – Assets
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Properly recording assets of the State of Nevada is a key component of effective internal control over financial reporting.
<i>Condition:</i>	A prior period adjustment of \$265,698,777 was required to correct assets that were not under control of the State of Nevada.
<i>Cause:</i>	The internal controls in place over financial reporting did not ensure the amounts recorded for assets were correct.
<i>Effect:</i>	In 2018, in the State Agency Fund for Bonds, cash in custody of other officials, investments, and deposits were overstated by \$21,681,384, \$244,017,393, and \$265,698,777, respectively.
<i>Recommendation:</i>	We recommend the State of Nevada enhance internal controls over financial reporting to ensure only assets that are under State of Nevada control are reported.
<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, 2019**

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

**2019-004 Investments – Interest Rate Risk, Credit Risk, and Fair Value Disclosures
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Properly recording investment disclosures of the State of Nevada is a key component of effective internal control over financial reporting.
<i>Condition:</i>	During our testing over the investment disclosures, we noted: <ul style="list-style-type: none">• inclusion of a nonnegotiable certificate of deposit in the interest rate risk, credit risk, and fair value disclosures;• inconsistencies in investment types between the fair value and credit risk disclosures; and• inconsistencies in the credit risk disclosure from the Local Government Investment Pool audited financial statements.
<i>Cause:</i>	The internal controls in place over financial reporting did not ensure the investment's interest rate risk, credit risk, and fair value disclosures were correct.
<i>Effect:</i>	The investment disclosure over: <ul style="list-style-type: none">• interest rate risk, credit risk, and fair value were overstated by \$25,332,749;• fair value on the investment categories regarding:<ul style="list-style-type: none">○ U.S. Agencies and Other Investments were overstated by \$5,041,700 and \$19,446,766, respectively; and○ Corporate Bonds and Notes were understated by \$24,488,466; and• credit risk quality ratings regarding:<ul style="list-style-type: none">○ AA was overstated by \$25,001,279;○ A, AA, AAA ratings were understated by \$422,467,021, \$30,113,708, and \$151,706,365, respectively; and○ Unrated was overstated by \$604,287,095.
<i>Recommendation:</i>	We recommend the State of Nevada enhance internal controls over financial reporting to ensure investment disclosures are reported consistently and accurately.
<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, 2019**

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

**2019-005 Monthly Bank Reconciliation
Material Weakness**

Criteria: 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.

Condition: The June 30, 2019 bank reconciliation for the outside bank accounts includes an unexplained variance of \$13,542,147 between the book balance and the bank balance.

Cause: The Controller's Office did not have adequate internal controls to ensure bank reconciliation variances were researched and resolved in a timely manner.

Effect: The cash balance recorded in the State of Nevada's general ledger may be incorrect.

Recommendation: We recommend the Controller's Office enhance internal controls to ensure the bank reconciliation variances are researched and resolved in a timely manner.

Views of Responsible Officials: Management agrees with this finding.

**STATE OF NEVADA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

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

**2019-006 Highway Fund – Accounts Payable and Inventory
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Properly recording accounts payable and inventory is a key component of effective internal control over financial reporting.
<i>Condition:</i>	During our audit procedures we became aware of accounts payable transactions that were not recorded in the appropriate accounting period. In addition, we also became aware of transactions that were posted incorrectly due to a formula error in the inventory spreadsheet.
<i>Cause:</i>	The internal controls in place did not ensure that payments made after year end were recorded in the accounting period in which the services were provided. In addition, the internal controls in place did not ensure that inventory was accurately reported.
<i>Effect:</i>	Accounts payable is understated by \$2,609,338 and inventory is understated by approximately \$748,361.
<i>Recommendation:</i>	We recommend the State of Nevada enhance internal controls over accounts payable and inventory.
<i>Views of Responsible Officials:</i>	Management partially agrees with this finding.

**STATE OF NEVADA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019**

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

**2019-007 Prior Period Adjustment of Infrastructure
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Proper reporting of infrastructure is a key component of effective internal control over financial reporting.
<i>Condition:</i>	A prior period adjustment of approximately \$3,119,518,000 was required to correct infrastructure amounts, which were understated in the 2018 financial statements.
<i>Cause:</i>	Internal controls in place in 2018 did not ensure that infrastructure was reported accurately.
<i>Effect:</i>	In 2018, infrastructure was understated by approximately \$3,119,518,000.
<i>Recommendation:</i>	We recommend the State of Nevada enhance internal controls to ensure infrastructure is reported accurately.
<i>Views of Responsible Officials:</i>	Management agrees with this finding.