

# COMPLIANCE SECTION

## Goldwell Open Air Museum

Ranked among some of world's most unique places to experience art is the one-of-a-kind Goldwell Open Air Museum. Featuring seven colossal sculptures that include a ghostly life-size version of Leonardo Da Vinci's painting of the Last Supper, a 25-foot pink woman constructed from cinder blocks, a 24-foot steel prospector and penguin, a gleaming tangle of chrome car accessories and a finely-carved winged woman who reaches for the sun from her perch atop a wooden pillar, the Goldwell Museum is certainly no average art experience.

The astonishing sculpture park, which covers nearly eight acres, was created by a group of well-known Belgian artists, led by the late Albert Szukalski, who were drawn to the remote upper portion of the vast Mojave Desert to pursue artistic vision free from convention. Each piece was designed within the context of the landscape and should be interpreted as such. The park is open to the public all day, every day, and there is no admission fee. The Goldwell Museum also features an on-site visitor



center with regular exhibits and events, as well as a small gift shop. The center is open certain weekends during the summer, but visitors are welcome to explore the sculpture park anytime.

The nearby Red Barn Art Center offers artist residency and workspace programs and is oriented to the artist who seeks challenging, dramatic landscapes in which to create.



*Nevada Tourism and Cultural Affairs*  
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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 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, 2020, 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 May 21, 2021. 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, and the Retirement Benefits Investment Fund – Investment Trust 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 Pension Trust Funds, the Insurance Premiums Internal Service Fund and the Retirement Benefits Investment Fund were not audited in accordance with *Government Auditing Standards*.

Our report qualifies the opinion on the government-wide governmental activities and general fund because the State was unable to determine an amount that should have been recorded for donated personal protective equipment inventory. In addition, our report qualifies the opinion on the highway fund because the State was unable to determine an amount that should have been recorded for stockpile inventory.

**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) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial

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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.

*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 2020-001, 2020-002, 2020-003, 2020-004, 2020-005, 2020-006, 2020-007, 2020-008, and 2020-009 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 financial statements. 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.

A handwritten signature in black ink that reads "Erik Bailly LLP". The signature is written in a cursive, flowing style.

Reno, Nevada  
May 21, 2021

**STATE OF NEVADA**  
**SCHEDULE OF FINDINGS AND RESPONSES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

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

**2020-001: Unemployment Fraudulent Benefit Payments**  
**Material Weakness**

*Criteria:* Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Internal controls should be designed, implemented and maintained to ensure the reliability of financial reporting and to prevent and detect fraud. The Department of Employment, Training, and Rehabilitation (DETR) is primarily responsible for the implementation of these controls in relation to the Unemployment Compensation Enterprise Fund.

*Condition:* Fraudulent unemployment benefit payments were paid.

*Cause:* DETR did not have the staffing levels, information system data analytic controls, and manual internal controls in place to handle the significant surge in unemployment claims as a result of the COVID-19 pandemic and the new programs implemented by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

*Effect:* At this time, the ultimate effect and total fraudulent payments cannot be estimated. However, initial estimates made by management believe that at least \$310.4 million in potentially fraudulent payments were processed. Of this amount, \$87.4 million were recovered by DETR's third party processor. The ultimate recovery of fraudulent payments is unknown and the amount cannot be estimated due to the volume of cases, sophistication of the fraudsters, and resources available to investigate. However, the investigative and recovery efforts are ongoing.

*Recommendation:* We recommend DETR work with the federal agencies involved in the unemployment fraud task force to identify and attempt recovery of fraudulent payments.

In addition, we further recommend that DETR improve information system internal controls to enhance data analytics as well as manual internal controls to better detect and prevent fraud.

*Views of Responsible Officials:*

Management agrees with this finding.

**STATE OF NEVADA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2020**

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

**2020-002:      Unemployment Financial Close and Reporting  
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Accurate and timely reconciliation and review of accounts on the Statement of Fund Net Position is an important aspect of internal control.
<i>Condition:</i>	Adjustments were needed in cash, accounts receivable, benefits payable, intergovernmental payables, and beginning net position (as well as related expense and revenue accounts). These accounts were not timely reconciled to the underlying support and thus required significant adjustment.
<i>Cause:</i>	The Department of Employment, Training, and Rehabilitation (DETR) did not have internal controls to provide for the appropriate and timely review of the general ledger as part of its financial close process.
<i>Effect:</i>	Prior to initial adjustment, cash balances were overstated by approximately \$328.8 million, receivables were understated by approximately \$648.6 million, payables were understated by approximately \$226.2 million, and beginning net position was overstated by approximately \$1.9 million. Related expenses and revenue accounts were adjusted accordingly. Subsequent to the initial adjustment, adjustments were recorded for an additional understatement of \$341.0 million in receivables and an understatement of \$305.2 million in payables with related expenses and revenue accounts adjusted accordingly.
<i>Recommendation:</i>	We recommend DETR implement internal controls to provide for the appropriate and timely review of the general ledger as part of its financial close process.
<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, 2020**

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

**2020-003:      Cash – Monthly Bank Reconciliation  
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Properly reconciling bank accounts in a timely and accurate manner is a key component of effective internal control over financial reporting.
<i>Condition:</i>	The June 30, 2020 bank reconciliation for the outside bank accounts includes an unexplained variance of \$7,691,973 between the book balance and the bank balance.
<i>Cause:</i>	Internal controls in place did not 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 the bank reconciliation variances are researched and resolved in a timely manner.
<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, 2020**

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

**2020-004: Highway Fund – Inventory Balance, Accounts Receivable, Accounts Payable  
and Unavailable Revenue  
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Proper recording of inventory, accounts receivable, accounts payable, and unavailable revenue are key components of effective internal control over financial reporting.
<i>Condition:</i>	<p>Physical inventory counts are performed during the months of April and May each year; however, there are no roll-forward procedures in place to determine what the year-end inventory balance should be as of June 30<sup>th</sup>. Inventory reports used to record the inventory balance stockpile by locations throughout the State of Nevada did not agree to the balance recorded by the Nevada Department of Transportation (NDOT). In addition, during our audit procedures the invoices provided to support inventory pricing significantly varied from the unit prices used in the inventory balance.</p> <p>During our audit procedures, we became aware of an accounts payable transaction that was not recorded in the appropriate accounting period.</p> <p>In addition, we became aware of accounts receivable and unavailable revenue transactions that were written off and improperly reflected in the accounts receivable and unavailable revenue balances.</p>
<i>Cause:</i>	<p>The internal controls in place did not ensure that inventory was recorded accurately.</p> <p>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.</p> <p>In addition, the internal controls in place did not ensure that bad debt write-offs were accurately reflected in accounts receivable and unavailable revenue.</p>

**STATE OF NEVADA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2020**

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

<i>Effect:</i>	The effect cannot be quantified as there were insufficient records in place to reasonably estimate year-end inventory balance.
	Accounts payable was understated by \$504,641. In addition, accounts receivable and unavailable revenue were overstated by \$1,771,505.
<i>Recommendation:</i>	We recommend the State of Nevada enhance internal controls, policies, and procedures to provide for the appropriate observation, valuation, and recording of inventory and related expenditures.
	We recommend the State of Nevada enhance internal controls over the recording of accounts receivable, accounts payable, and unavailable revenue.
<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, 2020**

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

**2020-005:      General Fund – Federal Grant Revenue  
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Proper recording of revenue is a key component of effective internal control over financial reporting.
<i>Condition:</i>	During our audit procedures we became aware of federal revenue transactions that were not recorded accurately.
<i>Cause:</i>	The internal controls in place did not ensure that Coronavirus Relief Funds (CRF) which are part of the CARES Act were properly tracked and accurately recorded. In addition, internal controls in place did not ensure the Supplemental Nutrition Assistance Program (SNAP) revenues were accurately recorded.
<i>Effect:</i>	Revenue related to CRF was overstated by \$16,376,678. In addition, revenue related to SNAP was understated by \$7,927,177.
<i>Recommendation:</i>	We recommend the State of Nevada enhance internal controls to ensure federal grant revenues are accurately recorded.
<i>Views of Responsible Officials:</i>	Management agrees with this finding.

**STATE OF NEVADA  
SCHEDULE OF FINDINGS AND RESPONSES  
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***Findings Relating to the Financial Statements Reported in Accordance with GAGAS:***

**2020-006:      CIP - Infrastructure  
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Proper recording of CIP - infrastructure additions is a key component of effective internal control over financial reporting.
<i>Condition:</i>	During our audit procedures we became aware of CIP - infrastructure transfers that were not recorded in the proper accounting period.
<i>Cause:</i>	Internal controls in place did not ensure that CIP - infrastructure transfers in/out were accurately recorded in the proper accounting period.
<i>Effect:</i>	CIP – Infrastructure was understated by \$16,160,342.
<i>Recommendation:</i>	We recommend the State of Nevada enhance internal controls to ensure CIP additions are properly recorded.
<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, 2020**

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

**2020-007:      Non-Cash Inventory – Personal Protective Equipment (PPE)  
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Accurate and timely recording of non-cash inventory is a key component of effective internal control over financial reporting.
<i>Condition:</i>	During the height of the COVID-19 pandemic, the State of Nevada received non-cash donations of PPE from federal and private donors. The State of Nevada did not have internal controls in place to properly track, maintain, and record the quantity and value of the receipt or distribution of PPE.
<i>Cause:</i>	Internal controls in place did not ensure that PPE provided by public and private donations were accurately tracked, maintained, and recorded.
<i>Effect:</i>	The amount is unknown.
<i>Recommendation:</i>	We recommend the State of Nevada enhance internal controls to ensure public and private donations are accurately recorded and that an inventory of PPE be performed as of June 30, 2021 and annually going forward as needed.
<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, 2020**

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

**2020-008:      Participant Revenue and Benefit Payments  
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Accurate and timely recording of participant revenue and benefit payments are a key component of effective internal control over financial reporting.
<i>Condition:</i>	The State of Nevada recorded internal transfers between investment funds in the College Savings Plan as participant revenue and benefit payments.
<i>Cause:</i>	Internal controls in place did not ensure that participant revenue and benefit payments were presented accurately.
<i>Effect:</i>	Participant revenue and benefit payments were overstated by \$9.9 billion.
<i>Recommendation:</i>	We recommend the State of Nevada enhance internal controls to ensure participant revenue and benefit payments are accurately presented on the financial statement.
<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, 2020**

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

**2020-009:      Prior Period Adjustment of OPEB Implicit Subsidy  
Material Weakness**

<i>Criteria:</i>	Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Proper reporting of the OPEB implicit subsidy is a key component of effective internal control over financial reporting.
<i>Condition:</i>	A prior period adjustment of \$6,797,371 was required to correct the deferred outflow of resources - OPEB implicit subsidy which was understated in the fiscal year 2019 financial statements.
<i>Cause:</i>	Internal controls in place did not ensure that the deferred outflow of resources – OPEB implicit subsidy was recorded accurately.
<i>Effect:</i>	In fiscal year 2019, the deferred outflow of resources – OPEB implicit subsidy was understated by \$6,797,371.
<i>Recommendation:</i>	We recommend the State of Nevada enhance internal controls to ensure actuarial calculations provided to the State of Nevada are reviewed and accurately recorded.
<i>Views of Responsible Officials:</i>	Management agrees with this finding.

## OUR THANKS AND APPRECIATION TO THE FOLLOWING FOR THEIR HELP:

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