

# COMPLIANCE SECTION



Cyclists explore Bloody Shins Trail  
Winnemucca, NV





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, 2015, 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, 2015. 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, 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 Trust 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.

*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. 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as Findings 2015-A and 2015-B that we consider to be significant deficiencies.

### **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 responses to the findings identified in our audit are 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  
December 21, 2015

**STATE OF NEVADA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015**

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

Finding 2015-A

Significant deficiency

*Criteria and Condition:* Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Properly reporting the gain/loss on refunding transactions is a key component of effective internal control over financial reporting.

A prior period adjustment of approximately \$38,000,000 was required to correct the amortization of the gain/loss on the refunding of certain bonds. The State of Nevada amortized the gain/loss on refunding transactions over the shorter of the life of the old debt or the life of the new debt, as required. Because it was 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. However, during the year, 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.

*Effect:* In prior years, net position in the government wide financial statements was understated by approximately \$38,000,000 and amortization expense was overstated by a like amount.

*Cause:* The State of Nevada calculated the life of the old debt as ending on the call date of the issue, rather than on the end date of the original issue.

*Recommendation:* We recommend the State of Nevada enhance internal controls to ensure the correct end date is used when recording amortization of gain/loss on refunding transactions.

*Views of Responsible Officials and planned corrective action:* The State of Nevada Controller's office is in agreement that the internal controls need to be enhanced to ensure the correct end date is used for amortization of gain/loss on refunding transactions. This has already been implemented by the Controller's office, both with the identification and correction of the error, and with updating procedures to

calculate the life of the old debt by using the original end date of the issue.

**STATE OF NEVADA  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015**

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

Finding 2015-B

Significant deficiency

*Criteria and Condition:* Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Properly capitalizing assets in the government-wide financial statements is a key component of effective internal control over financial reporting.

A journal entry was required to properly report a capital asset addition during the year. Land in the approximate amount of \$10,000,000 was recorded as an asset in 2012 and inadvertently recorded again in 2015 as part of the completed project.

*Effect:* Capital assets were overstated before the adjustment.

*Cause:* The State of Nevada Controller's office did not have adequate review procedures over multi-year construction projects to identify that an asset had been previously recorded.

*Recommendation:* We recommend the State of Nevada enhance review procedures over multi-year construction projects to ensure all components in the project are capitalized only once.

*Views of Responsible Officials and planned corrective action:*

The State of Nevada Controller's office is in agreement with the need for enhanced review procedures over multi-year construction projects. Therefore, additional procedures will be added to the review process in order to ensure that all components of multi-year construction projects are properly capitalized.