



# STAFF REPORT

**Report To:** Board of Supervisors

**Meeting Date:** December 6, 2018

**Staff Contact:** Sheri Russell, Chief Financial Officer

**Agenda Title:** Presentation Only: Staff will present some financial highlights of the current year Comprehensive Annual Financial Report (CAFR), and Piercy Bowler Taylor and Kern (PBTk) will Provide information related to their audit procedures and the results of those procedures for the Carson City CAFR fiscal year ended June 30, 2018. (srussell@carson.org)

**Staff Summary:** PBTk has been contracted to conduct an audit of the Carson City CAFR for the fiscal year ended June 30, 2018. Generally accepted auditing standards require the auditor to provide those charged with governance information about their responsibilities as well as certain information related to the planned scope, timing and results of the audit.

**Agenda Action:** Other/Presentation

**Time Requested:** 20

---

## **Proposed Motion**

N/A.

## **Board's Strategic Goal**

Efficient Government

## **Previous Action**

N/A

## **Background/Issues & Analysis**

NRS 354.624 requires the City to provide for an annual audit of all of its financial statements. In addition, the opinion and findings of the auditor contained in the report of the audit must be presented at a meeting of the governing body held not more than 30 days after the report is submitted to it (November 30).

The Carson City CAFR for the fiscal year ended June 30, 2018 has been completed by the Finance Department and audited by the City's independent auditors, PBTk.

Matters included in the letter to those charged with governance include: significant audit findings related to qualitative aspects of accounting practices, difficulties encountered in performing the audit, corrected and uncorrected misstatements, disagreements with management, management representations, management consultations with other independent accountants, other audit findings or issues, and other matters.

## **Applicable Statute, Code, Policy, Rule or Regulation**

NRS 354.624, Title 2 U.S. Code of Federal Regulation (CFR) Part 200, and Generally Accepted Auditing Standards

**Financial Information**

Is there a fiscal impact?  Yes  No

If yes, account name/number:

Is it currently budgeted?  Yes  No

Explanation of Fiscal Impact: N/A

**Alternatives**

N/A

**CARSON CITY, NEVADA**

**REQUIRED  
COMMUNICATIONS  
LETTER**

**TO THE  
BOARD OF SUPERVISORS**

**FOR THE YEAR ENDED  
JUNE 30, 2018**

**CARSON CITY, NEVADA**  
**REQUIRED COMMUNICATIONS LETTER**

**CONTENTS**

	<b>PAGE</b>
Transmittal letter	1
Management's responsibility	2
Significant audit adjustments (corrected misstatements)	2
Difficulties or contentious matters encountered in performing the audit	3
Matters involving internal control	4
Other governance matters	5

**P B T K**

**PIERCY BOWLER  
TAYLOR & KERN**

Certified Public Accountants  
Business Advisors

Board of Supervisors  
Carson City, Nevada  
201 North Carson Street  
Carson City, Nevada 89701

RE: Required Communications

Ladies and gentlemen:

As part of our engagement to audit the financial statements of Carson City, Nevada (the City) as of June 30, 2018, and for the year then ended, we are required under applicable auditing standards to communicate certain matters to those charged with governance responsibilities for the City for the purpose of assisting them in meeting their responsibilities with regard to the financial reporting process. This report contains those required communications.

The matters reported herein were considered in forming our opinion on the City's financial statements contained in our report dated November 7, 2018, and these matters do not change that report.

The purpose of this communication, among other things, is to describe the scope of our testing of internal control over financial reporting and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record, and its distribution is not limited.



November 7, 2018

Copies provided to:  
Nancy Paulson, City Manager  
Sheri Russell, Chief Financial Officer/ Risk Manager

## MANAGEMENT'S RESPONSIBILITY

It is management's responsibility to provide those charged with governance responsibilities, prior to issuance of the City's annual financial statements and our report thereon, with detailed information related to the City's 1) initial selection of, and changes in, significant accounting policies and practices, 2) significant estimates, 3) significant unusual transactions, and 4) corrected and uncorrected misstatements, if any.

Appended to this communication is a copy of the letter of representation, requested by us, to be executed by management with regard to our audit services.

## SIGNIFICANT AUDIT ADJUSTMENTS (CORRECTED MISSTATEMENTS)

Our audit resulted in a few significant adjustments to the City's financial statements, as follows:

**Restatement Related to PERS Accounting.** On January 10, 2018, the State of Nevada notified all local Nevada governments of an omission in the previously issued PERS employer report pursuant to GASB Statement 68 and provided updated, but "unaudited" schedules. Upon review of this information, it was determined that the report previously issued by PERS, which included an auditors' report dated July 5, 2017, did not include all information necessary for participating local governments to implement GASB Statement No. 82 ("GASB 82") for the year ended June 30, 2017.

We believe there were basically two options available to the City, restate opening net position and certain other balances in connection with the 2018 audit (Option 1) or recall and reissue the 2017 financial statements as soon as possible (Option 2). Management chose not to recall and restate 2017 because they believed that the adjustments would not be perceived as important by the various users of the financial statement particularly given the time elapse from the last to the next issuance of financial statements, lack of any known unintended legal implications, and the "unaudited" nature of the supplement. In addition, the adjustments would have had no impact on the City's liquidity or net pension liability. If we had been retained and consulted at the time, we would have likely concurred with management's decision.

Instead of implementing Option 1 as part of the 2018 financial statement preparation, management reasoned that the change in accounting principle qualified for change in estimate accounting with the effect to be included in 2018 activities. However, management overlooked a specific provision of GASB 82 that required restating in the City's particular circumstances. We proposed an adjustment to reduce net position at July 1, 2017 and primarily deferred outflows of resources by approximately \$5,600,000. See Internal Control Findings, "Ineffectively Review of Journal Entries."

**Ambulance Receivables.** The City entered into an "after-the-fact" agreement effectively with the Department of Health and Human Resources for the reimbursement of certainty charges not covered by medicaid for the period from October 1, 2015 through June 30, 2018. The original agreement dated June 13, 2017 was for an estimated stated contract price of approximately \$1.5 million, revised to approximately \$5.1 million on November 14, 2017. Existence of the revised agreement should have been known by the Finance Department prior to finalizing the City's financial statements for fiscal 2017 on November 30, 2017. During the year ended June 30, 2018, the City received \$1.2 million for the period from October 1, 2015 to June 30, 2016 (billing finalized August 5, 2017) and another \$1.4 million in September of 2018 for the year ended June 30, 2017 (billing finalized July 26, 2018). Management estimates approximately \$1.3 million is receivable for fiscal

2018 (billing not yet finalized). None of the contract amount had been accrued as of June 30, 2017.

We proposed adjustments to increase net position and accounts receivable at July 1, 2017 by approximately \$2.6 million for services provided to ambulance customers prior to that date and to increase ambulance receivables and revenue by approximately \$1.3 million as of and for the year ended June 30, 2018. See Internal Control Findings, "Ineffective Communication Between Departments."

**Utilities Receivables.** Historically, the City has not accrued receivables for services provided to utility customers on or before June 30th but billed the following month, a different fiscal year. We proposed adjustments totaling approximately \$1,619,000 to increase utilities receivables and net position at July 1, 2017. The change in total unbilled receivables increased by approximate \$134,000 as of June 30, 2018 and was included in 2018 activities.

**Depreciation Expense.** The City records depreciation expense beginning with the first month an asset is placed in service. However, transfers from construction in process to the various asset types only occur once per year in June. June is assumed to be the date the asset is placed in service. As a result, an asset might have been substantially complete and placed in service anytime during a year but only be depreciated for one month. If an independently functioning asset or sub-project component is associated with a large project, it is possible that an independently functioning asset or component might be completed and placed in service in a prior year but not depreciated until a subsequent year when the entire project is complete. During 2018, there was approximately \$40 million of transfers from construction in process, with approximately \$33 million related to sewer plant additions and improvements. This project was approved in fiscal 2014, construction commenced in fiscal 2016, and the entire project was complete by December 2017 (fiscal 2018). Management recorded approximately \$55,000 of depreciation expense for the entire project in fiscal 2018 (none in prior years) based on the assumptions that all of the assets were in service for one month and had useful lives of 50 years.

Based in part on interviews with the project manager, approximately \$9 million of additions and improvements were actually placed in service during fiscal 2017, split roughly evenly between September 2016 and June 2017 completion dates. Useful lives of the various component assets ranged from 10 to 50 years, with a 20-year useful life for approximately \$22 million of the \$33 million in additions and improvements. We estimated that unrecorded depreciation expense for 2017 was approximately \$196,000 and total depreciation expense for 2018 was approximately \$1,040,000 and proposed adjustments. Management requested that we waive as immaterial adjustments to 2017 and add such amount to 2018 activities with which we agreed. Accordingly, in fiscal 2018, depreciation expense and accumulated depreciation was increased by approximately \$1,296,000. See Internal Control Findings, "Ineffective Review of Journal Entries."

#### **DIFFICULTIES OR CONTENTIOUS MATTERS ENCOUNTERED IN PERFORMING THE AUDIT**

Although management cooperated fully and no contentious matters were encountered in completing the June 30, 2018, audit, certain difficulties were encountered as follows:

A considerable amount of initial planning, including expected procedures and engagement scheduling, was based on information provided by and/or in consultation with your prior Chief Financial Officer prior to his departure. We subsequently needed to substantially revise certain planned procedures and engagement timing based on information received from his replacement and other evolving events. As a result, the time we expected to spend related to "first year only matters" was about 50% higher than initially budgeted. We also

under estimated the inefficiencies encountered due to "end of life" software constraints. We understand that the City plans to replace and standardize most of its critical software and for the financial modules to be in service for fiscal 2020.

Most other difficulties encountered related to the financial statement audit were in connection with those matters that resulted in proposed adjustments as previously discussed, including gathering sufficient information to evaluate and formulate conclusions.

In connection with federal grant testing, considerable time was incurred because of "high risk" determinations due to prior year material weakness findings and the tedious process of agreeing expenditure records in the administering department of the grants to the Schedule of Expenditure of Federal Awards (the "SEFA") prepared by the Finance Department partially due to constraints related to end of life software. Preparation of the SEFA and reconciliation processes also takes approximately one month for two finance accountants. Management believes that "project accounting" capabilities available with the planned new software should substantially reduce the time required by the finance department and by us.

#### MATTERS INVOLVING INTERNAL CONTROL

We planned and performed our audit of the financial statements of the City as of June 30, 2018 and for the year then ended, in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards* issued by the Comptroller General of the United States. We considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the City's financial statements. Such procedures were not performed for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

The principal objectives of effective internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that all transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States. The concept of reasonable assurance requires that management, in fulfilling its responsibility, make estimates and judgments to assess the expected benefit and related costs of control procedures. Because of inherent limitations in any internal control, errors or fraudulent acts, particularly when involving forgery and collusion, may occur and not be detected. In addition, there is a risk that procedures may become inadequate in future periods because of changes in conditions and the degree of compliance with the procedures may deteriorate.

**Definitions.** A *deficiency* in internal control over financial reporting 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 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 City'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 with governance. Our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.



**Findings.** Our procedures identified the following that we are bringing to your attention:

**1. Ineffective Review.** We observed that the review of complicated and / or non-recurring journal entries is ineffective. We believe an effective review would have identified the need for two adjustments we proposed relating to PERS Accounting (GASB 82 Implementation) and Depreciation Expense.

We recommend that more attention and thoughtful consideration be given to the supervision and review of complicated, individually material and/or non-recurring journal entries. We also recommend that annual adjustments related to PERS and OPEB liabilities and related balances be prepared by someone other than the Chief Financial Officer so that the Chief Financial Officer is available to review such adjustments.

**2. Ineffective Communication Between Departments.** We observed that until recently the Finance Department was unaware that the estimated value of the Ambulance contract with the Department of Health and Human services had been increased from \$1.5 million to \$5.1 million and had based adjustment considerations on the lower threshold and other more uncertain assumptions than a formal contract amendment. We were unable to locate the existence of the revision in minutes of the Board of Supervisors probably because the Mayor's signature was not required. However, we did locate the revision in the minutes of a meeting of the State of Nevada Board of Examiners where City representatives were present but the Finance Department was not represented. More generally, we also observed that the City's management is decentralized making effective inter-departmental communication more challenging.

We recommend that the Finance Department give greater attention and care to the review of all minutes of the Board of Supervisors, its committees, and other organizations in which the City participates that might identify matters requiring accounting recognition and/or disclosures in the City's financial statements. We also recommend a greater degree of person-to-person communications between Finance and other departments related primarily (but not limited to) contract administration because most will require accounting recognition and/or disclosure.

We consider all of the findings reported above, either individually or in combination, to be material weaknesses.

We have reported other matters and/or made certain recommendations in a separate letter to management, dated November 7, 2018, which matters we believe do not constitute significant deficiencies or other matters required by applicable auditing standards to be included herein.

#### **OTHER GOVERNANCE MATTERS**

**Auditors' responsibility under applicable professional standards.** As stated in our report on the City's financial statements, our responsibility as independent auditors, under applicable professional standards, is to express an opinion, based on our audit, on the City's financial statements, which are the responsibility of the City's management. Our responsibilities, as contrasted with management's, are spelled out more fully in our letter of engagement.

Despite any limited assistance we may have provided to management in its preparation, our responsibility for information accompanying the City's financial statements is limited to 1) reading such information to ascertain that it is materially consistent with information presented in the City's financial statements 2) considering whether any statements contained therein may appear to be materially misstated, and 3) assuring the satisfactory

resolution of our concerns, if any. In this instance, we performed the required procedures, and any changes requested by us in this process were satisfactorily made and all questions satisfactorily resolved.

In considering the matters reported herein, you should be cognizant of your responsibility for oversight of the financial reporting process and management's responsibilities for establishing and maintaining an effective internal control subject to regulatory and ownership approval, and for the City's financial statements.

**Fraudulent or other illegal or abusive activities.** We did not become aware of any possible fraudulent or other illegal or abusive activities or any significant complaints or concerns regarding the City's accounting and financial reporting.

**Significant accounting policies.** The significant accounting policies employed by the City are disclosed in the notes to the City's financial statements and are essentially as prescribed, recommended or permitted under applicable authoritative literature for, or commonly used by, other entities in your industry. The accounting policies have been consistently applied except for new accounting pronouncement recently adopted as required and are not controversial or lacking in authoritative guidance or consensus.

**Significant estimates.** The financial statements do not contain any significant management estimates, except for allowances for doubtful collection, depreciation methods and useful lives, pension and other post-employment employee benefit liabilities and related accounts, and provisions for loss contingencies, if any.

**Significant unusual transactions.** Significant unusual transactions are those that occur outside the normal course of business or that otherwise appear to be unusual due to their timing, size, or nature. We are not aware of any significant unusual transactions.

**Related parties.** No significant audit issues were encountered in connection with the City's related party transactions, for example, nondisclosure by management or questionable authorization/purpose.

**Disagreements or pre-retention discussions with, and consultations with other accountants by, management.** We are also required by professional standards to communicate any significant disagreements with management, consultations by management with other accountants that we become aware of, or discussions with us prior to our retention regarding any major issues, over the application of accounting principles, management's judgments about accounting estimates, disclosures to be made in the City's financial statements, the scope of the audit or the wording of the auditors' report, regardless of whether the matter was satisfactorily resolved. No such disagreements were encountered in our audit, nor are we aware of any consultations with other accountants, nor were we consulted prior to retention, regarding any such matters.

**Licensing and independence.** This will confirm that we are duly licensed to perform this engagement. In addition, in our professional judgment, we are independent of the City and, when applicable, its affiliated entities under all applicable rules, regulations, and interpretations, and we represent that we know of no relationships that a reasonably informed person might consider an impairment of our independence under such requirements with regard to this engagement.

**Management consulting services.** We have not provided the City with any management consulting services.

**Compliance with laws, regulations, contracts and grants.** Compliance with laws, regulations, contracts and grants applicable to the City is the responsibility of the City's management. As part of obtaining reasonable

assurance about whether the City's financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

In accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have issued our report dated November 7, 2018, on our consideration of the City's internal control over financial reporting and on our tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and should be considered in assessing the results of our audit.

In accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the Uniform Guidance), auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have issued our report dated November 7, 2018, on our consideration of the City's compliance with requirements applicable to major programs and on internal control over compliance. The purpose of that report is to describe the scope of our testing of compliance and internal control over compliance and the results of that testing, and to provide an opinion on the City's compliance with such requirements, but not to provide an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with the requirements of the Uniform Guidance, auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and should be considered in assessing the results of our audit.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in laws, regulations, contracts and grants, that when aggregated, in our judgment, are material to the City's financial statements or a major grant program. The results of our tests of compliance and internal control over compliance did not disclose material instances of noncompliance or material weaknesses in internal control over compliance except as indicated in the above referenced reports.

**REPRESENTATIONS SOUGHT  
FROM MANAGEMENT**



**CARSON CITY, NEVADA**  
CONSOLIDATED MUNICIPALITY AND STATE CAPITAL

November 7, 2018

Piercy Bowler Taylor & Kern  
Certified Public Accountants  
6100 Elton Avenue, Suite 1000  
Las Vegas, Nevada 89107

To the Firm:

In this letter, the use of the phrase "financial statements" refers to the basic financial statements and related disclosures of Carson City, Nevada (the City), including any accompanying or supplemental information, as of June 30, 2018 and for the year then ended. It is in relation to these financial statements and in connection with the professional audit services that you provided that we make the representations contained herein.

Certain representations in this letter are described as referring or being limited to matters that are "material" to, or that could have a "material effect" on, the financial statements. We understand that items are considered qualitatively material, regardless of size, if they involve an omission or misstatement of information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. However, such materiality considerations do not apply to those representations contained herein that are not directly related to amounts included in the financial statements. For purposes of these representations, any matters having a possible effect of \$100,000 individually or \$300,000 in the aggregate, on the financial statements are considered quantitatively material.

**GENERAL REPRESENTATION OF TRUTHFULNESS**

We have responded fully and truthfully to all inquiries made to us by you and confirm, to the best of our knowledge and belief, all representations we have previously made (or should have made) including, but not limited to, those specifically stated in this letter.

We reconfirm, to the best of our knowledge and belief, those representations previously made with respect to all comparative prior period information presented with the current period financial statements updated as necessary in this letter.

We agree to hold you harmless and indemnify you for any costs incurred as a result of your reliance on any false representations made to you by management personnel in connection with your services.

We agree to hold you harmless and indemnify you for any costs incurred as a result of your reliance on any false representations made to you by management personnel in connection with your services.

## **TRANSACTIONS, RECORDS, ESTIMATES, ADJUSTMENTS, AND FINANCIAL REPORTING**

1. We are responsible for authorizing, initiating, processing, and reporting transactions only in connection with the legitimate business purposes and best interests of the City, including, but not limited to, all related party and other transactions outside the normal course of business, if any. It is also our responsibility to ensure that such transactions comply with various laws, regulations, and contractual agreements applicable to the City and the City has complied with all such requirements that would have a material effect on the financial statements in the event of non-compliance.

The City has complied with all restrictions on resources, including donor restrictions, and all aspects of contractual and grant agreements that would have a material effect on the financial statements.

We are responsible for evaluating the classification of contract and grant revenues as either contributions or exchange transactions in accordance with the provisions of applicable standards and for ensuring that all such revenues are appropriately reported.

We have properly classified and reported the City's equity and changes therein, in accordance with the provisions of applicable standards.

The City has complied with all applicable laws and regulations in adopting and amending the budget, and the budget information presented in financial statements includes all approved amendments.

The funds established by the City are in the required form and are being used expressly for the purpose(s) for which they were created in accordance with all applicable statutory and regulatory requirements, including specifically the provisions of Nevada Revised Statutes 354. In addition, reserves, if any, in each fund are limited to an amount that is reasonable and necessary to carry out the purpose(s) of the fund.

Except as disclosed in the financial statements or an attachment to this letter, we have determined that there are no component units or joint ventures that require disclosure under applicable *Governmental Accounting Standards*.

2. We are unaware of any material transactions that have not been recorded in the financial records underlying the financial statements including, but not limited to, related party transactions, (such as sales or purchases of goods or services, loans, transfers, leasing arrangements or guarantees) and related amounts receivable or payable or illegal transactions.
3. We have made available to you all financial records and related data underlying the financial statements of which management is aware of and believes are relevant to the preparation of the financial statements and any additional items that you requested, including but not limited to, 1) the names of all related parties and all relationships and transactions with related parties, and 2) minutes of and related resolutions (or accurate and complete summaries of discussions held and actions taken at) all meetings of those charged with governance through the date of this letter. Such minutes or summaries include and fairly describe all decisions made and actions taken by the respective bodies that bear significantly on the financial statements. Furthermore, we have provided you with unrestricted access to persons within the City that you have selected to obtain

audit evidence from.

4. We are responsible for and have identified all fair value and other accounting estimates that materially affect the financial statements including, specifically, those that are susceptible to material revision during the first year subsequent to the end of the most recent period presented as a result of evolving events that have a reasonable probability of occurrence. We have informed you of the key factors and significant assumptions that underlie those estimates.

We understand that the service(s) provided by you did not include preparing, or assisting in the preparation of, any fair value estimates contained in the City's financial statements.

5. We are responsible for all recorded accounting estimates, including all asset valuation allowances. Such estimates reflect management's best judgment considering all reasonably available facts, including management's knowledge and experience about past events and current circumstances, and expected courses of action and are not materially misstated.

We have allocated certain expenses among functional expense categories (program services and supporting activities) based upon our knowledge and experience as to the benefit associated with each activity, including program services only to the extent a program objective was benefited from such expenditures.

6. We have evaluated and have recorded (or will record) adjustments to the books of account for all financial statement misstatements identified by us or by you, if any, during the course of your engagement. There are no misstatements that remain unadjusted as a result of perceived immateriality, both individually and, if applicable, in the aggregate.

This assertions recognizes that a 2017 depreciation expense misstatement was corrected in 2018 at our request as explained in your required communication letter to us dated November 7, 2018.

7. We are responsible for the fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States. In other words, it is our responsibility to ensure that the financial statements and related disclosures are free of material misstatements in relation to the requirements of accounting principles generally accepted in the United States, which financial reporting framework we have evaluated and determined to be acceptable and appropriate.

We are responsible for the fair presentation of the accompanying supplemental information.

We are responsible for the financial statements including all disclosures required by laws and regulations or other applicable standards to which the City is subject.

We are responsible for performing a search for agreements, including those of other governments that may affect the City's tax revenues and determining which agreements meet the definition of "tax abatements" under GASB Statement No. 77. We have performed such a search, identified all agreements that we believe meet such definition, and believe the financial statements contain all required disclosures.

We are responsible for the proper classification of revenues in the statement of activities and reporting of all inter-fund, internal, and intra-entity activity and balances in accordance with Governmental Accounting Standards Board Statement No. 34, as amended.

We are responsible for identifying all funds that meet the quantitative criteria in Governmental Accounting Standards Board Statement No. 34, as amended for presentation as a major fund and for ensuring that all qualifying funds are reported as such. In addition, any fund presented as a major fund that does not meet the quantitative criteria has qualitative significance to users of the

financial statements.

Any assistance that you provided to us in connection with the preparation of the financial statements and/or analysis of accounts including that which resulted in proposed adjustments was evaluated, reviewed, and approved by Sheri Russell, CFO, a member of the City's management team, who possesses suitable skills, knowledge, and/or experience to do so, meaning that this individual understands the services performed sufficiently to oversee them, but is not required to possess the expertise to perform or re-perform the services.

8. There have been no significant changes in business activities, accounting practices or internal controls that might affect the financial statements.
9. We have reviewed and approved what we intend to be the final draft of the financial statements.

### **SPECIFIC DISCLOSURE REPRESENTATIONS**

1. **Change of accounting principle(s).** As indicated in the notes to the financial statements, the City changed certain method(s) of accounting to new method(s) of accounting that are preferable to the accounting principle(s) previously in use for the reasons stated therein.
2. **Delayed adoption of new accounting principle(s).** As indicated in the notes to the financial statements, management has opted to delay the adoption of certain new accounting principle(s) until required to do so, and the expected future effect of adoption is disclosed therein.
3. **Related party transactions and balances.** There are no material related party transactions and related amounts receivable or payable.
4. **Concentrations, risks and uncertainties.** Except as disclosed in the financial statements or an attachment to this letter, there are no concentrations of credit or other business or economic risks (including, but not limited to, customers, suppliers, lenders, products, services, sources of labor or materials, franchise or other licenses, operating areas, markets, *etc.*) that make the City vulnerable to a severe impact within the first year subsequent to the end of the most recent period presented. In addition, we are not aware of any undisclosed matters regarding the financial stability of depository banks or other financial institutions that might affect your judgment about the significance of any risk of loss to the City associated with uninsured deposits.
5. **Receivables.** All material receivables recorded in the financial statements represent valid claims arising as a result of sales, loans or advances or other transactions occurring within or before the end of the most recent period presented and have been reduced to their estimated net realizable value by appropriate collection and/or other applicable valuation allowances.
6. **Investments in marketable securities.** All material investments in marketable debt and equity securities are classified and valued appropriately, in accordance with the City's intent and ability, and futures contracts, held as hedges, if any, are accounted for pursuant to applicable standards. There are no significant concentrations of market risk associated with such investments.
7. **Financial instruments.** Management has used the methods and assumptions disclosed in the financial statements, and taken all reasonable, appropriate and practical steps in the circumstances, to ascertain the appropriate accounting for and objectively estimate the fair value of material financial instruments and other assets carried or reflected in the financial statements or disclosures, if any, including instruments that do not have readily determinable market values, pursuant to



applicable standards.

8. **Fair value measurements.** All assets and liabilities recorded in the financial statements at estimated fair value are appropriately segregated into fair value measurement input categories ("Level 1", "Level 2" or "Level 3") subject to any applicable and disclosed practicability exceptions. Such fair value measurements are based upon the methods and assumptions disclosed in the financial statements, and management has taken all reasonable, appropriate and practical steps in the circumstances, to objectively estimate the fair value of such assets and liabilities including those that do not have readily determinable market values and all such fair value measurements are supported by appropriate documentation.
9. **Title, carrying values and classification of assets.** There are no management plans or intentions that may materially affect the carrying value or classification of any City assets and the City has satisfactory title to such assets. All recorded carrying costs are recoverable, net of any impairment write-downs and other recorded valuation allowances and provisions, which are adequate, and we are unaware of any undisclosed value impairment indications, including those relating to long-lived assets, liens, encumbrances or other title impairments as of the end of the most recent period presented.

Goodwill and other intangible assets have been evaluated and recorded in accordance with applicable standards and, if applicable, amortized. There are no known facts or circumstances that would trigger and impairment evaluation and possible recognition of an impairment loss as of the end of the most recent period presented.
10. **Inventories.** There are no material amounts of obsolete, damaged, slow-moving, excessive or otherwise unsaleable or overvalued inventories, or commitments to purchase inventory quantities in excess of normal requirements or at a price in excess of market that have not been appropriately written down (or reserved).
11. **Debt covenants.** No debt covenants have been violated and/or no events of default have occurred through the date of this letter. Furthermore, the City has not received any correspondence from lenders related to possible debt covenant violations or events of default.
12. **Commitments, contingencies and accruable liabilities.** Except as disclosed in the financial statements or an attachment to this letter, there are no matters of pending or threatened litigation, asserted or unasserted claims or assessments that our lawyers have advised or that we are aware of that are probable of assertion, that could have a material effect on the financial statements, including, but not limited to, 1) environmental remediation obligations, 2) gain or loss contingencies that require recognition or disclosure in accordance with applicable accounting standards, 3) guarantees (written or oral) or "in-substance" guarantees of the obligations of other entities or individuals (including, for example, general partnership interests) or for which the City is contingently liable to a bank or other lending institution, 4) warranties or rights of return, 5) arrangements with financial institutions involving compensating balances or other restrictions on cash balances, 6) lines-of-credit or similar arrangements, 7) unconditional promises to contribute or otherwise transfer cash or other assets, 8) conditional promises to contribute or otherwise transfer cash or other assets that would require accrual or disclosure under applicable standards, 9) potential losses from unfavorable sales commitments, 10) other commitments requiring disclosure in the financial statements (including for the issuance of capital stock or partnership or other equity units, asset repurchase agreements, capital stock reserved for options, warrants, conversions or similar rights), 11) side agreements or other arrangements (either written or oral) with others, or 12) other unrecorded liabilities.

Furthermore, other than the District Attorney and other attorney(s) from whom audit inquiries were

made, no attorney services have been retained related to material loss contingency matters.

13. **Multiple-employer cost-sharing defined pension benefit plan(s).** We have no intention to terminate or materially modify the City's defined pension benefit plan(s). Although it is possible that a liability would be incurred by the City in the event of its withdrawal from participation in, or the termination of, such plan(s), the liability is not subject to reasonable estimation based on available information. Furthermore, all contributions required for the City's defined benefit plan(s) have been made or recorded as liabilities as of the end of the most recent period presented.

The City records its proportionate share of the net pension liability of the Nevada Public Employees' Retirement System or Utah Retirement System in accordance with applicable standards. Management has agreed its contributions to the amounts and allocation metrics used by the Nevada Public Employees' Retirement System or Utah Retirement System in determining the the City's proportionate share, which is appropriate in the circumstances.

14. **Solvency.** We understand that you have neither determined nor will opine as to whether the City is solvent or insolvent for bankruptcy or other purposes since such would be a legal determination that may be made only by a court.
15. **Segment reporting.** Operating segments are appropriately identified and disclosed in the financial statements in accordance with applicable standards.
16. **Use of a specialist and/or reliance on government pension plan auditors in connection with the valuation of assets or liabilities.** For assets and liabilities valued with the assistance of a valuation specialist and/or government pension plan auditor, we made an objective evaluation of their qualifications, objectivity or independence to perform the assignment and did not do anything that might have materially biased or influenced their conclusion(s).
17. **Subsequent events.** We are responsible for evaluating events or transactions that have occurred subsequent to the end of the most recent period presented, but before the financial statements are issued or available for issuance (subsequent events), through the date of this letter, for recognition and disclosure. We have performed appropriate subsequent events evaluation procedures, which are sufficient in the circumstances. There have been no significant events subsequent to the end of the most recent period presented that, in our judgment, would materially affect and, therefore, require adjustment to, or disclosure in, the financial statements.

#### **INTERNAL CONTROL OVER FINANCIAL REPORTING AND FRAUD**

1. We are responsible for designing, implementing, establishing and maintaining effective internal control over financial reporting that provides reasonable assurance that 1) the financial statements are fairly presented in conformity with accounting principles generally accepted in the United States, 2) the City's resources are adequately safeguarded, 3) the City is in compliance with all applicable laws, regulations and contractual requirements, and 4) fraudulent and other illegal acts are detected and prevented, including those involving both fraudulent financial reporting and misappropriation of assets possibly leading to financial statement misstatements.
2. We are responsible for evaluating the qualifications of all service organizations employed by the City including, but not limited to, computer service bureaus, financial institutions, investment advisors, brokers and other agents that we engage, particularly as to their integrity and ability to perform the services requested in accordance with management's authorization(s), and do not use

or rely upon any services that your Firm performs in making these evaluations.

3. We are unaware of any fraud that is either material, probably material or that, although not material, involves management or other employees who have a significant role in internal control over financial reporting.
4. Except as disclosed in the financial statements or an attachment to this letter, there has been no communication from or action by law enforcement or regulatory agencies concerning possible, alleged or suspected fraud, deficiencies in financial reporting practices or other noncompliance with laws, regulations or contractual requirements or any other illegal acts that should be considered for disclosure or for recording a loss contingency.
5. We are responsible for assessing the expected benefits and the related costs of all control procedures, including any additional or alternative procedures recommended by you.
6. We are responsible for considering and have considered the cause(s) of proposed adjustments (whether or not made and without distinction between those proposed by us or you), if any, including those that may have resulted, in whole or in part, from deficiencies in the design and operation of related controls.
7. There have been no changes in internal control over financial reporting or any other factors subsequent to the end of the most recent period presented that might significantly affect internal control over financial reporting, including any corrective actions taken by management with regard to any identified material weaknesses and other significant deficiencies.
8. We understand that a *deficiency* in internal control over financial reporting 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 misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected. A *significant deficiency* is a deficiency, or combination of deficiencies, that is less severe than a material weakness yet important enough to merit attention by those charged with governance.
9. We are responsible for and continually assess the effectiveness of internal control over financial reporting including disclosure controls, and do not use or rely upon procedures performed by your Firm for this purpose.
10. We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting, including disclosure controls, that were identified as part of management's assessment or otherwise, specifically identifying all such deficiencies that are material weaknesses and other significant deficiencies as defined above, if any.
11. All control deficiencies identified by management, or by you during or as a result of previous engagements, if any, have been communicated to those charged with governance of the City and resolved to management's satisfaction.

#### **COMPLIANCE WITH AND INTERNAL CONTROL OVER FEDERALLY FUNDED PROGRAMS**

1. We are responsible for complying, and have complied, with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit*

*Requirements for Federal Awards* (the Uniform Guidance), various other laws, regulations, and provisions of contracts, including grant agreements applicable to each of the City's federal programs and represent that the City has complied, in all material respects, with all such requirements.

We have specifically identified and disclosed to you the provisions of contracts and grant agreements that have a direct and material effect on each of the City's federal programs.

We have identified and disclosed to you all amounts questioned and any known instances of non-compliance with the requirements of federal awards, including the results of, or current status of, other audits or program reviews through the date of this letter.

We are responsible for tracking the status of all audit and program review findings and have identified and disclosed to you all such findings. In addition, we are responsible for the preparation and implementation of the corrective action plan and a copy thereof has been provided to you.

2. We have made available to you all records and related data for our federal programs, including but not limited to: 1) a schedule of expenditures of federal awards prepared in accordance with the Uniform Guidance, which includes all expenditures made during the most recent period presented for all awards provided by federal agencies (including those passed through other entities) in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property, donated surplus property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance; 2) all contracts and grant agreements, including amendments, if any, and other correspondence with federal agencies or pass-through entities related to the City's federal programs; and 3) all documentation related to the compliance requirements, including information related to federal program financial reports, and claims for advances and reimbursements.
3. We have specifically identified and disclosed to you all amounts that have been awarded to us under the authority of the *American Recovery and Reinvestment Act of 2009*, including any such amounts expended or received by us.
4. All federal program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared. The copies of federal program financial reports provided to you are true copies of the reports submitted (including electronically transmitted) to the applicable federal agency or pass-through entity.
5. We are responsible for and have monitored subrecipients compliance with applicable laws and regulations including the Uniform Guidance, reviewed and issued decision(s) as to subrecipient audit findings, if any, and ensured that corrective action was taken timely. In connection with reviewing the subrecipients' audit findings, we have considered the possible need for adjustment to our own books and records and made such adjustments as determined to be necessary.
6. All costs charged to federal programs, including allocated indirect costs, if any, are in compliance with applicable cost principles.
7. We are responsible for the accurate preparation of the summary schedule of prior audit findings, which includes all findings required to be included by the Uniform Guidance. We are also responsible for the completion of the "data collection form" and the submission of our "reporting package" as required by the Uniform Guidance.

Furthermore, we understand that if we fail to submit the "data collection form" and "reporting package" timely, it will preclude us from being classified as a "low-risk" auditee in each of the

subsequent two years and may result in increased audit fees for each of those years.

8. We are responsible for designing, implementing, establishing and maintaining effective internal control over compliance for federal programs that provides reasonable assurance that we are managing federal awards in compliance with all applicable laws, regulations, and provisions of contracts, including grant agreements, which could have a material effect on our federal programs.
9. There have been no changes in internal control over compliance for federal programs subsequent to the most recent financial reporting period presented that might significantly affect internal control over compliance or have a direct and material effect on any of the City's federal programs. In addition, there have been no known instances of non-compliance occurring subsequent to the most recent financial reporting period presented through the date of this letter.

### **INTENDED USERS OF THE FINANCIAL STATEMENTS**

The financial statements are intended solely for the third party users specified in the City's letter of engagement with you or in a supplemental written communication to you and no others without your prior written approval.

There are no current plans for the issuance of public debt (*i.e.*, municipal bonds including revenue bonds) during the first year subsequent to the end of the most recent period presented; and therefore, the financial statements are not expected to be included in any offering documents.

### **NATURE AND PURPOSE OF THE PROFESSIONAL SERVICE YOUR FIRM PROVIDED**

**Purpose of audit.** We understand that your audit of the City's financial statements was made for the purpose of enabling you to express an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States.

We understand that the required supplementary information (management's discussion and analysis, budgetary comparison schedules and other required information) presented with the financial statements is not a required part of the financial statements, but is required by applicable standards to be presented and that although you applied limited procedures to this information you did not audit it; and therefore, you will express no opinion on the required supplementary information.

We understand that the other supplementary information (introductory section, combining and individual fund financial statements and schedules and statistical section) presented with the financial statements is not a required part of the financial statements.

We understand that the introductory section and statistical section were not subjected to the procedures applied in the audit of the City's financial statements; and therefore, you will express no opinion on this information.

We understand that the combining and individual fund financial statements and schedules were subjected to the procedures applied in the audit of the financial statements; and therefore, you will express an opinion on this information in relation to the financial statements taken as a whole.

We understand that the nature of the service that you provided requires that your service team exercise professional judgment in connection with virtually every aspect of and throughout the engagement, and

that such judgment(s) might vary from those of another professional in the same or similar circumstances.

Very truly yours,

Carson City, Nevada

  
\_\_\_\_\_

Nancy Paulson, City Manager

 11/4/18  
\_\_\_\_\_

Sheri Russel, Chief Financial Officer



# **FINANCIAL ANALYSIS**

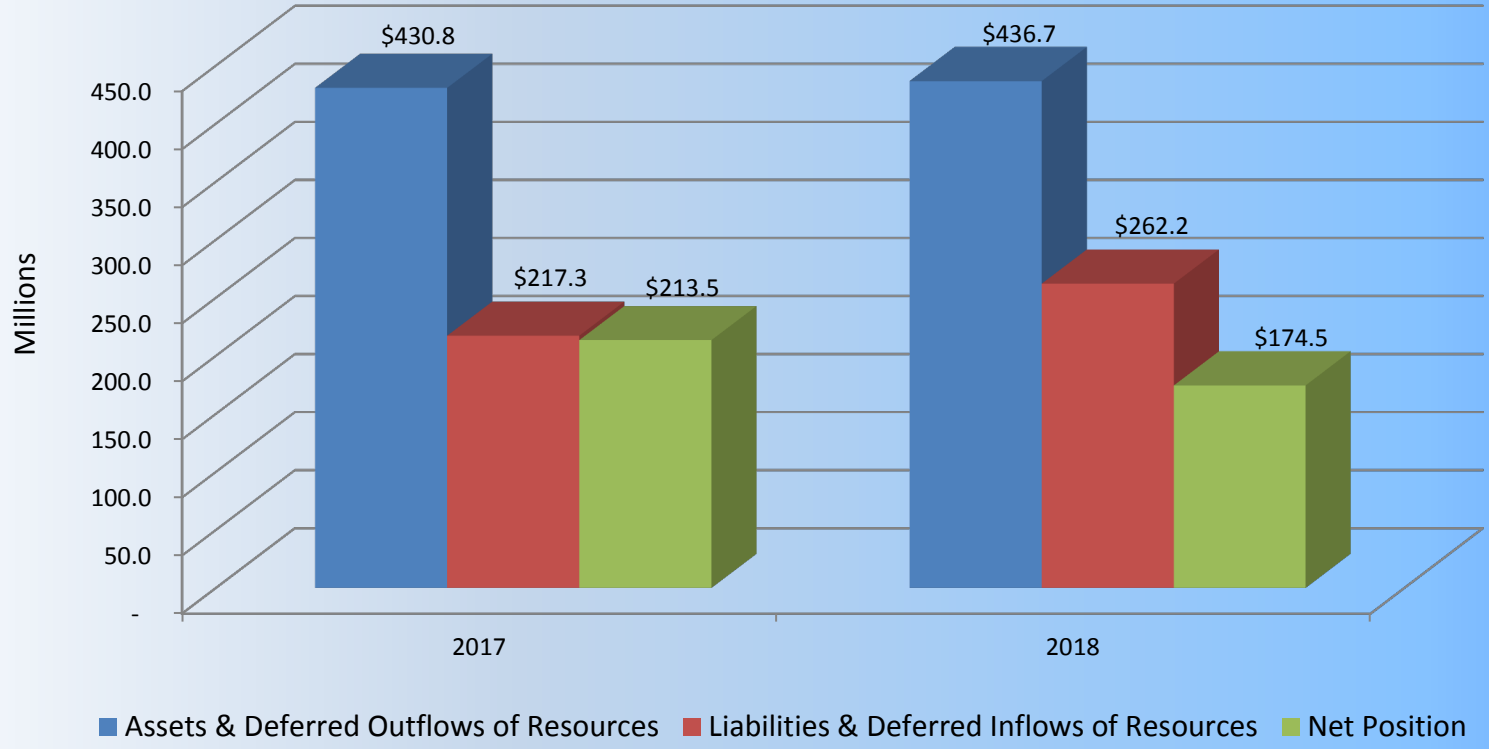
## **CARSON CITY, NEVADA COMPREHENSIVE ANNUAL REPORT JUNE 30, 2018**

# DOCUMENT LAYOUT

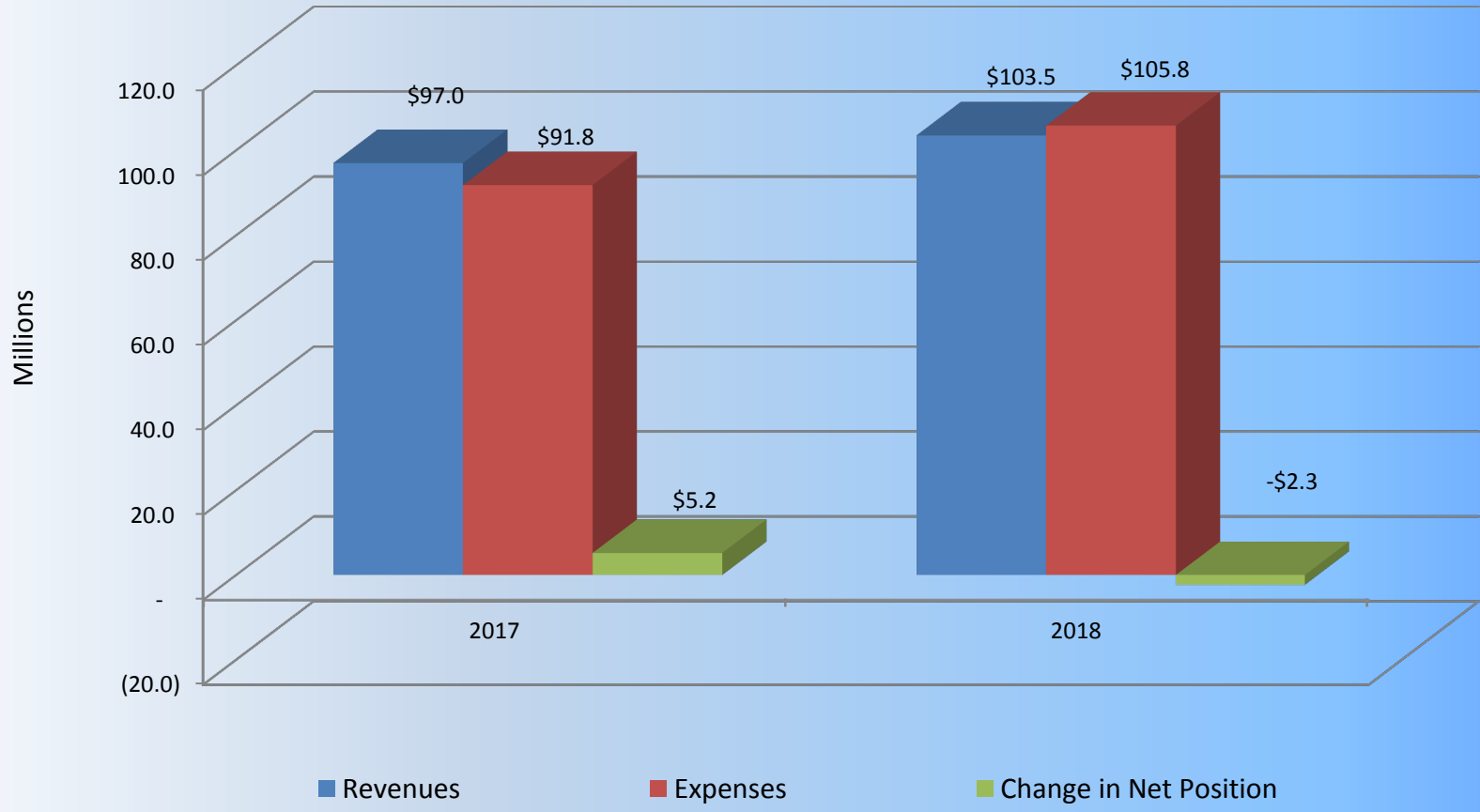
- Independent Audit Report starts on page 9 and PBTK has given us an unqualified opinion.
- Page 6 – The City received the Certificate of Achievement for Excellence in Financial Reporting for our FY 2017 CAFR.
- Page 12 is the Managements Discussion and Analysis which is a much more concise summary of the document.
- Page 22 is the Government Wide Statement of Net Position. The Notes to the Financial Statements start on page 37 and explain the numbers in more detail.
- Page 44 of the Notes to the Financial Statements states that the City had two budget violations:
  - Sewer Fund expenses exceeded the budget by \$841,996, which was due to an under-estimation of budgeted depreciation.
  - Ambulance Fund expense exceeded the budget by \$561,459, this was due to non-cash OPEB and PERS liability adjustments primarily due to the implementation of GASB 75.
- Page 207 - Schedule of Findings & Questioned costs.



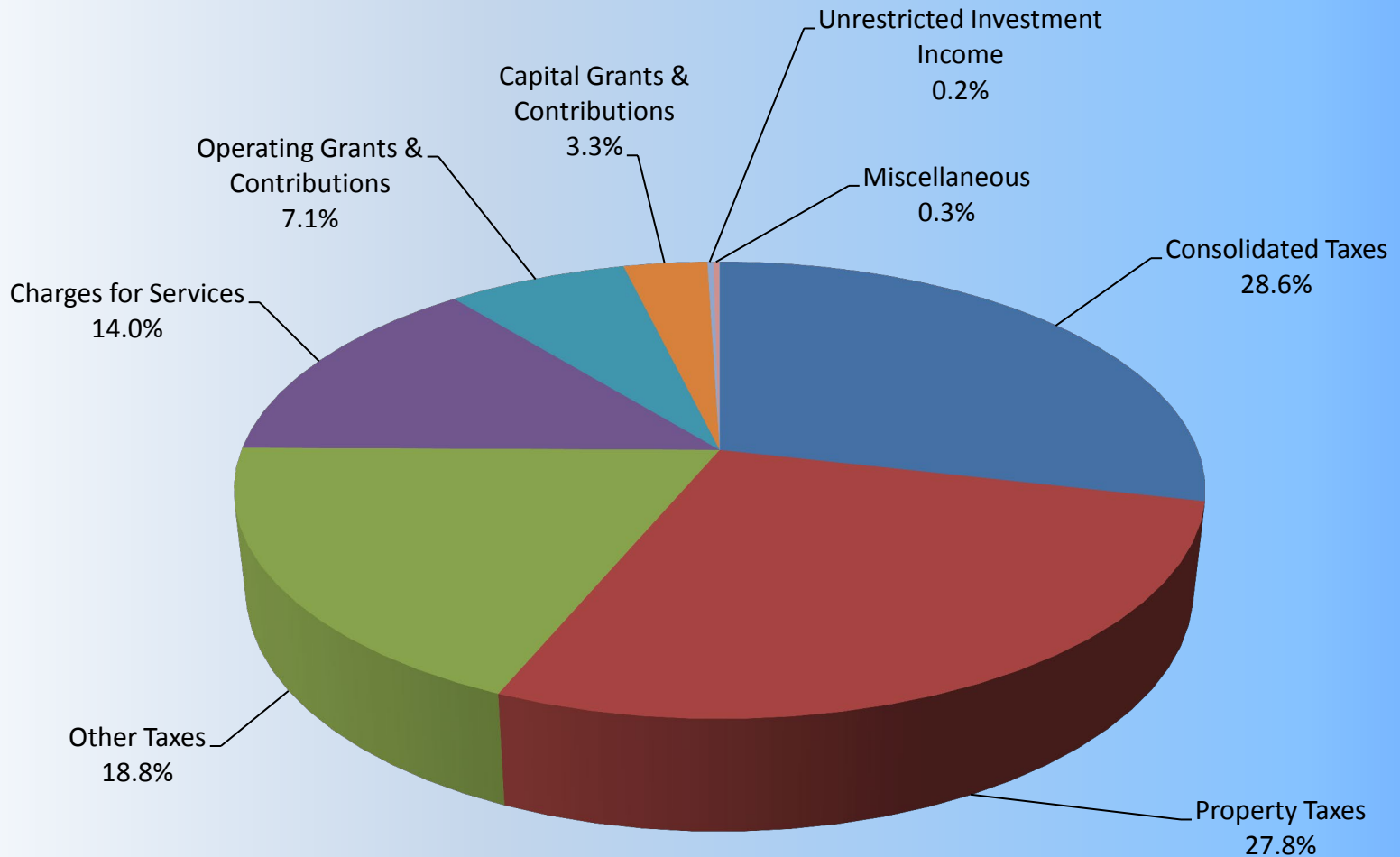
**CARSON CITY  
STATEMENT OF NET POSITION  
GOVERNEMENTAL ACTIVITIES  
JUNE 30,**



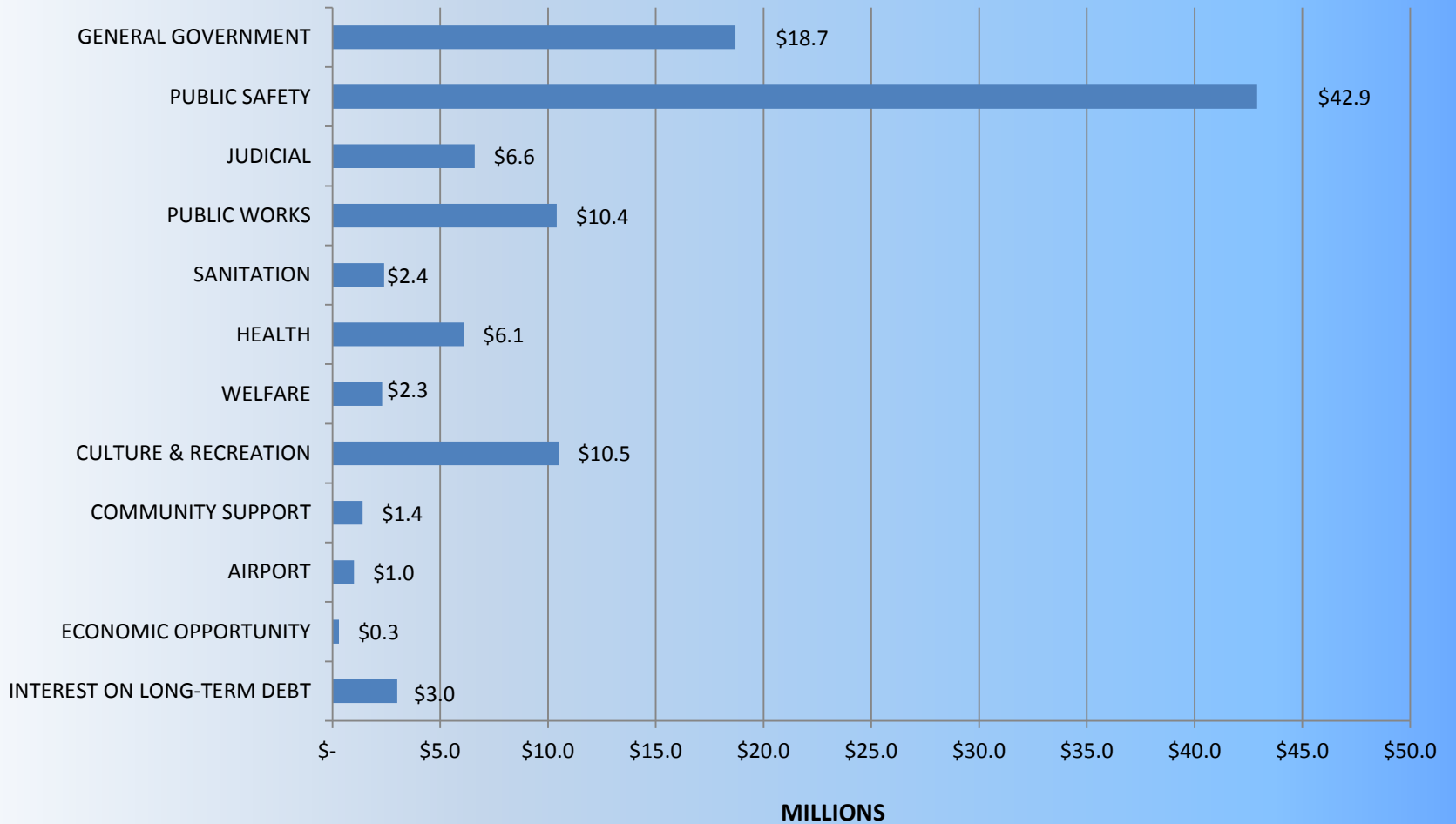
**CARSON CITY  
STATEMENT OF ACTIVITIES  
GOVERNEMENTAL ACTIVITIES  
FOR THE YEARS ENDED JUNE 30,**



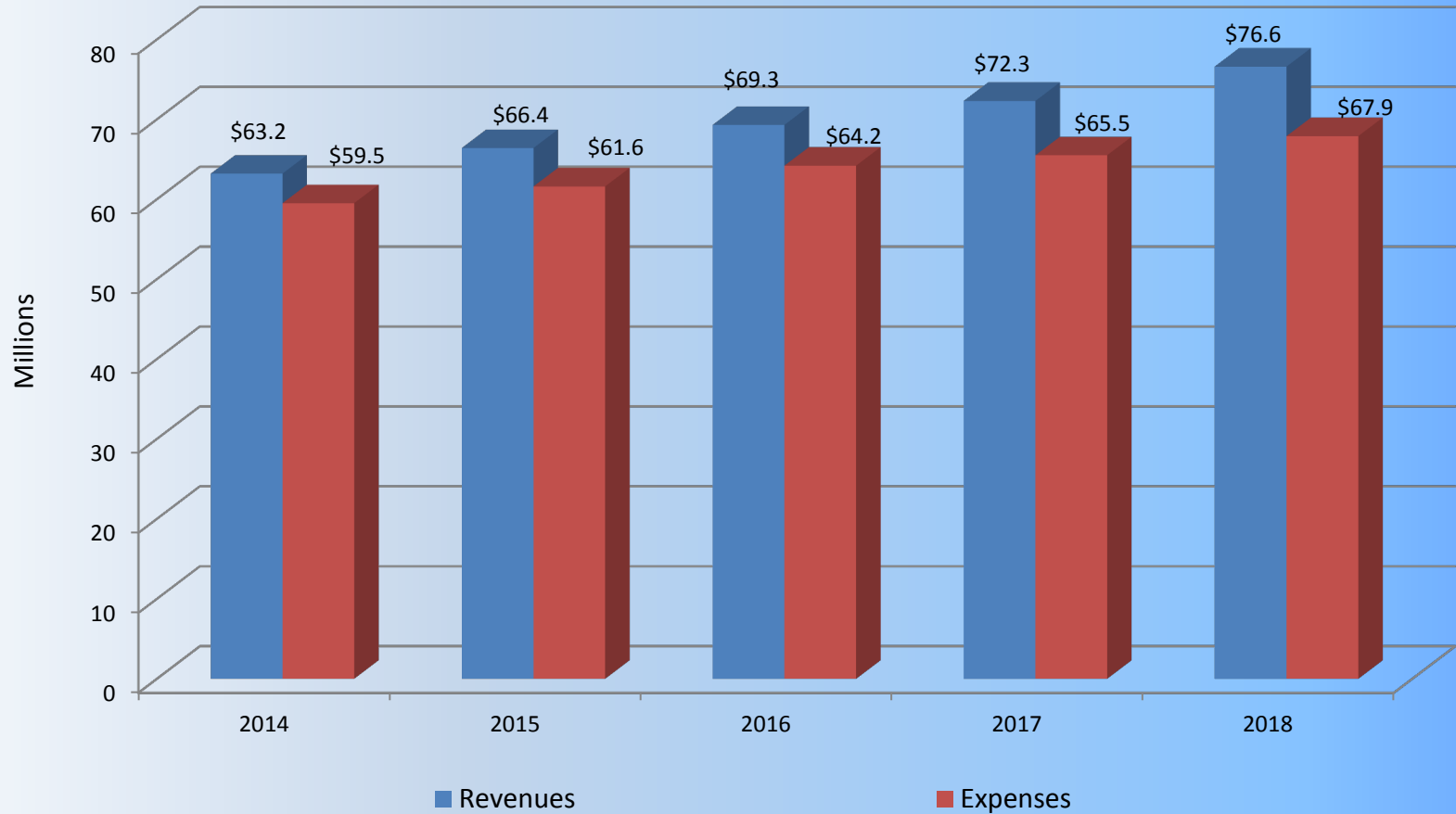
**CARSON CITY  
REVENUES BY SOURCE  
GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**



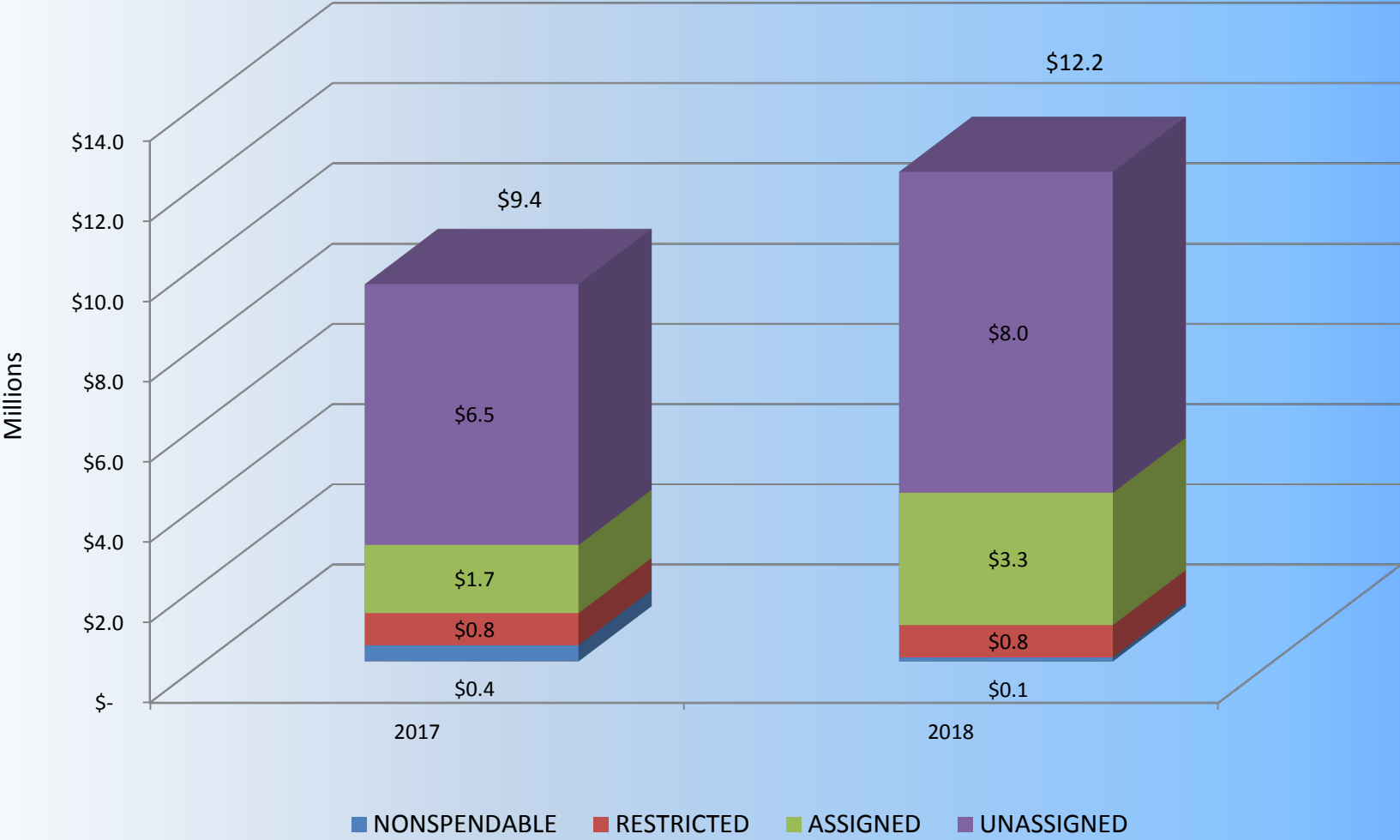
**CARSON CITY  
EXPENSES BY FUNCTION  
GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**



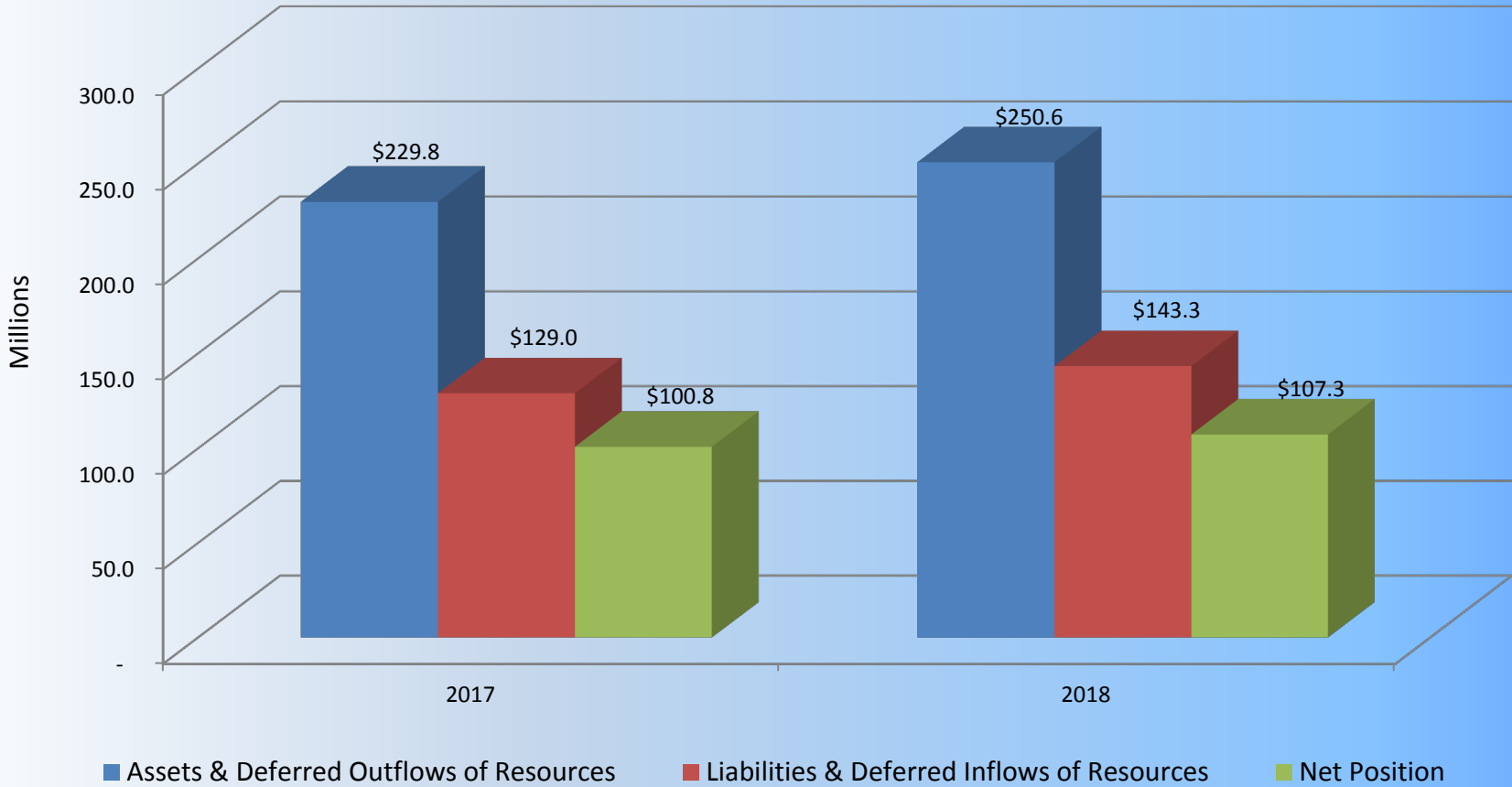
**CARSON CITY  
GENERAL FUND  
REVENUES VS. EXPENSES  
FOR THE YEARS ENDED JUNE 30,**



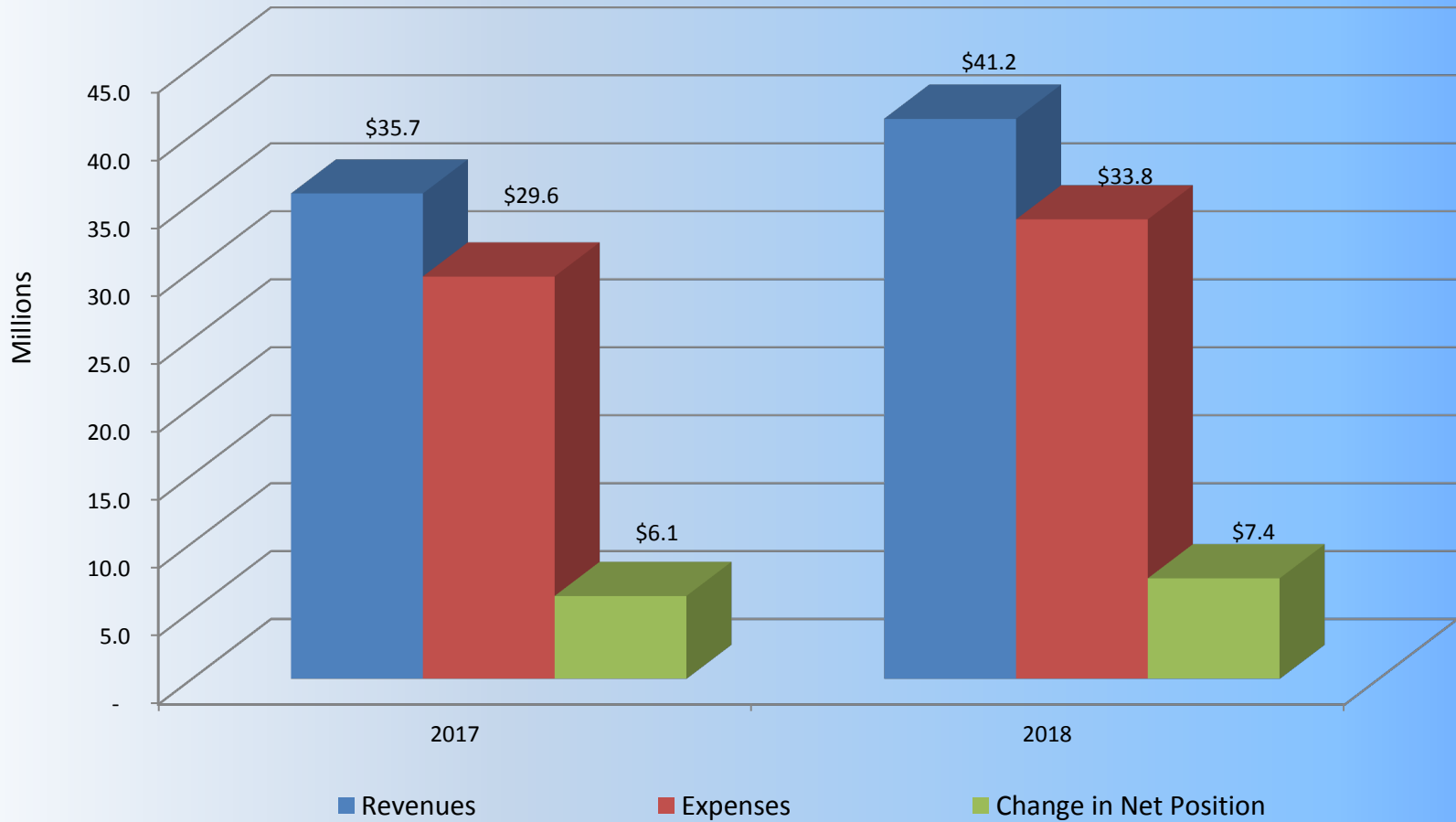
**CARSON CITY  
GENERAL FUND  
FUND BALANCES  
FOR THE YEARS ENDED JUNE 30,**



**CARSON CITY  
STATEMENT OF NET POSITION  
BUSINESS-TYPE ACTIVITIES  
JUNE 30,**



**CARSON CITY  
STATEMENT OF ACTIVITIES  
BUSINESS-TYPE ACTIVITIES  
FOR THE YEARS ENDED JUNE 30,**





# QUESTIONS





WHEN IT  
COUNTS,  
COUNT  
ON PBTK

Carson City  
Nevada  
Audit  
Presentation

**P B T K**  
PIERCY BOWLER  
TAYLOR & KERN  
Certified Public Accountants  
Business Advisors

# Thank You!

- Thank you for allowing PBTk to be of service
- And thank you to your staff who were very responsive – they get a lot done with limited resources
- We consider Carson City to be a very important client!

# What is an Audit?


# Audit

- Information gathering
- Concluding “The financial statements are fairly stated in all material respects.”
- We issue an unmodified opinion – the highest level of assurance
- It does not provide absolute assurance because the records are not tested 100%.



# “In All Material Respects”

- Farming analogy – key information to gather
- Do the haystacks exist
- Have all the haystacks been included?
- Are the haystacks properly valued?
- Have all necessary disclosures about the haystacks been disclosed?

A close-up photograph of a magnifying glass held over a large pile of dry, golden-brown straw. A single, thin metal needle is visible, protruding from the dense mass of straw. The magnifying glass's lens is positioned to focus on the needle, making it stand out against the chaotic background of the haystack. The background outside the lens is blurred, emphasizing the needle's location.

**We are less  
concerned  
with finding  
a needle at  
the bottom  
of one of  
the  
haystacks**



# Audit Approach

# Our Audit Approach

- Risk-based for history of the Firm
- Our approach is marketed out to other firms
- Dissect the financial statements
- Identify significant assertion
- Identify where there are risks of material misstatement
- Design procedures to detect material misstatements

# Cash & Investments - \$61.6M

Agreed all balances to Custodian  
Records

Tested book to fair value  
adjustment

Performed price testing

Unacceptable findings

- None



# Receivables (\$23.5M) Service Revenues (\$53.M)

- Subsequent receipt testing
- Predictive analytics
- Inspection of contracts
- Control tests for service revenue and substantial analytics
- Recalculated billed amounts for accuracy
- Unacceptable findings
  - \$2.6M understatement of ambulance receivables and net position

# Capital Assets (\$581.5M)

- Opening balances substantially tested in prior years
- Tested \$44M in current additions tested
- Tested depreciation expense analytically
- Unacceptable findings
  - Depreciation expense understated by \$1.3M
- Internal control
  - Material weakness related to ineffective review of non-routine journal entries

# Deferred Outflows (\$17.9M) Inflows of Resources (\$8.5M)

- Tested in connection with pension liabilities



# Accounts Payable and Accrued Expenses (\$13.2M); Expenditures (\$139.3M)

- Search for unrecorded liabilities
- Legal representations
- Re-calculated significant accruals
- Statistical tests of payroll & general disbursements
- Unacceptable findings
  - None

# Bonds Payable (\$231.4M); Interest Payable (\$1.7M); Interest Expenses (\$6.6M)

- Agreed balances to amortization schedules in documents
- Recalculated interest expense/payable
- New debt agreed to documents
- Recalculated refunding gains/losses
- Unacceptable findings
  - None



# Net Pension Liability: \$93.1M

- Agreed balances to specialist reports
- Investigated expert's qualification/reputation
- Tested market assumptions used
- Agreed inputs in expert reports to City's records

# Net Pension Liability: \$93.1M (cont.)

- Agreed inputs in expert reports to City's records
- Unacceptable findings
  - \$5.6M adjustment to net position related to an implementation error of new accounting standard
- Internal Controls: Material weakness related to ineffective review of non-routine journal entries

# Other Post Employment Benefits Liability: \$76.2M

- Specialist procedures similar to PERS
- Tested implementation of a new accounting standard
- Unacceptable findings
  - None



# Tax (\$41.1M)

# Intergovernmental Revenues (\$40.1M)



- Property taxes (\$25.0M) – predictive substantive analytics
- Consolidated tax agreed to State Reports (\$25.0M)
- Other revenues – third party verification, control tests and/or analytics
- Unacceptable findings
  - None



# Single Audit Grant Testing

# Three Grants Tested for OMB Compliance

- No questioned costs
- No material weaknesses or significant deficiency affecting grant compliance
- Prior year findings corrected
- Unacceptable findings
  - None

# Q&A

L. Ralph Piercy  
lrpiercy@pbtk.com