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Date:	November 12, 2014
To:	Southern Nevada Health District Audit Committee
From:	Maria Gamboa, Engagement Principal
CC:	Southern Nevada Health District FY14 audit files
Subject:	Report to the audit committee regarding the FY14 annual audit

Major funds tested:

- General Fund (Governmental)
- Capital Projects Fund (Governmental)
- Bond Reserve Fund (Governmental)
- Public Health Laboratory Fund (Enterprise)

Major federal grant programs tested (A-133 single audit):

- CFDA #93.069 - Public Health Emergency Preparedness
- CFDA #93.520 - Centers for Disease Control and Prevention–Affordable Care Act (ACA) – Communities Putting Prevention to Work
- CFDA #93.737 – PPHF Community Transformation Grants – Small Communities Program financed solely by Public Prevention and Health Funds
- CFDA #93.889 – National Bioterrorism Hospital Preparedness Program
- CFDA #93.940 - HIV Prevention Activities - Health Department Based
- CFDA #93.959 – Block Grants for Prevention and Treatment of Substance Abuse
- CFDA #93.977 – Preventive Health Services – Sexually Transmitted Disease Control Grants

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Focus of audit and/or significant events or transactions:

- Cash and equivalents (primarily in the custody of Clark County's Investment Pool)
- Grant revenues, expenditures and related receivables (including grant compliance)
- Inventory (vaccine)
- Capital assets
- Liabilities for compensated absences and other post-employment benefits (OPEB)
- Fund balance classifications
- Revenue, expenditure/expense (primarily payroll and related) and journal entry control testing

Summary of audit results

- Difficulties in performing the audit.
    - We believe that management cooperated fully during the audit.
- Significant audit adjustments
    - **Recognition of grant revenue.** To defer the recognition of $452,949 of grant revenue at the fund level, this was not received by the District within the 60 day period to be considered available. Although the entry had no impact at the District-wide (i.e., full accrual) level, it increased deferred inflow of resources (unavailable revenue) and reduced fund balance in the District's general fund by $452,949.
    - **Expenditure Cut-off.** To properly accrue for approximately $133,000 of expenses that were incurred for goods and services rendered and received prior to June 30, 2014. This entry increased liabilities and decreased fund balance as follows:

        General fund- $79,810 (governmental activities)
        Capital projects fund- $51,000 (governmental activities)
        Public Health Lab- $2,389 (business-type activities)
- Waived audit adjustments
    - No waived adjustments during the current year were noted.
- Weaknesses in internal controls over financial reporting and compliance.

  Financial reporting:

  1. **Revenue / receivable cut-off (repeat finding – significant finding).** The District's controls designed to ensure appropriate receivable and revenue cut-off did not function as intended, due to ineffective monitoring for compliance therewith. As a result, the District's receivables and revenues were understated by $87,943 as of and for the year ended June 30, 2014. In addition, approximately $453,000 of grant revenue that was not received by the District within 60 days after year end was improperly recognized as revenue at the fund level.

     We recommend that the month-end and year-end financial reporting processes be modified to require an analysis of payments received subsequent to the end of an accounting period so that revenues for services rendered are recorded in the proper period.

2. **Expenditures / payable cut-off (significant deficiency).** The District's controls designed to ensure appropriate payable and expenditure/expense cut-off did not function as intended, due to ineffective monitoring to evaluate the degree of compliance therewith. Specifically, the review of invoices received and paid subsequent to the end of the fiscal year did not result in the accrual of invoices for approximately $133,000 of goods and services received by the District during fiscal 2014.

   We recommend that the month-end and year-end financial reporting processes be modified to require an analysis of invoices received and paid subsequent to the end of an accounting period so that expenditures for goods and services received are recorded in the proper period.

3. **Internally developed software (significant deficiency).** The District's internal controls over financial reporting do not include policies and procedures regarding the proper accounting for internally-developed intangible assets, as required by GASB Statement No. 51, Accounting and Financial Reporting for Intangible Assets (GASB 51). As a result, expenditures incurred during fiscal 2014 for the development of a new timekeeping software system were not tracked and evaluated for capitalization in accordance with the guidance included in GASB 51, and were therefore expensed as incurred.

   We recommend that the District's internal controls over financial reporting be updated to include policies and procedures regarding the proper accounting for internally-developed intangible assets. Specifically, costs for internally-developed intangible assets should be tracked and evaluated to determine whether they are required to be capitalized in accordance with the guidance included in GASB 51.

4. **Timeliness of remediation of internal control deficiencies (material weakness).** The District has not addressed internal control deficiencies related to grant compliance in a timely manner. Certain findings regarding time and effort reporting and subrecipient monitoring were first reported as part of the fiscal 2012 audit. However, formal policies and procedures related to time and effort reporting were not fully implemented until March 2014, and formal policies and procedures related to subrecipient monitoring were not fully implemented until August 2014 (i.e., fiscal 2015).

Grant compliance:

1. **Time and effort reporting policy (significant deficiencies).** The formal time and effort reporting policy developed and implemented in March 2014 was not effectively communicated to the various divisions within the District. As such, inconsistencies were noted across the various divisions in terms of how grant-related activities were being tracked and reported. In addition, the quarterly review specified in the policy was not completed during fiscal 2014.

2. **Subrecipient monitoring (repeat finding -material weakness).** There is no formal subrecipient monitoring policy in place to guide those charged with the monitoring and oversight function. Accordingly, compliance findings were noted that relate to ineffective subrecipient monitoring.

3. **Subrecipient contracts (significant deficiencies, repeat finding).** The District is not in compliance with the federal grant requirements pertaining to the issuance of subawards and subaward disclosures.

4. **Monitoring of program income (significant deficiency, repeat finding).** There are no policies and procedures in place requiring that analyses be performed to verify that program income is being used to finance the non-federal share of the scope of the project or to further program objectives.

5. **Period of Availability (other matter).** The District was not in compliance with the period of availability grant requirements resulting in questioned costs of $3,466.

6. **Statistical Reports (other matter).** The grant program manager filed the required statistical reports on a semi-annual basis. The granting agency was contacted during the audit and informed us that the semi-annual reports were not considered acceptable for purposes of compliance with the grant reporting requirements, and should be submitted quarterly.

7. **Property records (other matter).** The policies and procedures requiring property records to include all information required by the grant agreement did not function as intended, due to ineffective monitoring for compliance therewith. The condition of the equipment was not indicated in the asset modules.

- Management override of internal controls. **None noted**

- Changes in significant accounting policies / practices /estimates during the year. **None**

- Scope limitations. **None**

- Illegal acts or fraudulent activity. **None noted**

- Disagreements with management regarding:

  - Application of significant accounting principles. **None**
  - Significant estimates. **None**
  - Financial statement disclosures. **None**

Significant accounting policies:

- The significant accounting policies are disclosed in the notes to the basic financial statements and are essentially as prescribed, recommended or permitted under applicable authoritative literature for and consistent with other governmental entities. The accounting policies have been consistently applied and are not controversial. During the current fiscal year, there were no significant changes to the District's accounting policies.

Reaffirmation of independence:

- Independence threats:

  - Preparation of the District's financial statements – Although PBTK compiles the CAFR, this threat is mitigated by the oversight provided by management personnel that possess the necessary knowledge and ability to properly oversee the CAFR preparation process.

Questions from the Audit Committee / Management: