

Memorandum #02-15

Date: January 22, 2015

To: SOUTHERN NEVADA DISTRICT BOARD OF HEALTH

From: Sharon L. McCoy-Huber, *Financial Services Manager*
Andrew J. Glass, FACHE, MS, *Director of Administration*
Joseph P. Iser, MD, DrPH, MSc, *Chief Health Officer*



Subject: Audit Report Fiscal Year Ending June 30, 2014

The firm of Piercy Bowler Taylor & Kern, CPA's, completed the audit of the Southern Nevada Health District's financial statements for the fiscal year ending June 30, 2014. Both the Report on Financial Statements and Supplementary Information and the Report on Internal Control over Compliance received unmodified opinions. An electronic copy of the Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2014 is attached.

During December, 2014 the auditors met with leadership and the Board of Health Finance Committee to discuss the auditor's Required Communications Letter. The auditors will report on the financial status of the Health District at the January 22, 2014 Board of Health meeting.

Attachments:

- Comprehensive Annual Financial Report for the fiscal year ending June 30, 2014
- Required Communications Letter
- Management Response to the Required Communications Letter

P B T K

**PIERCY BOWLER
TAYLOR & KERN**

Certified Public Accountants
Business Advisors

SOUTHERN NEVADA HEALTH DISTRICT

**REQUIRED
COMMUNICATIONS
LETTER**

**TO THE
FINANCE COMMITTEE**

**FOR THE YEAR ENDED
JUNE 30, 2014**

**SOUTHERN NEVADA HEALTH DISTRICT
REQUIRED COMMUNICATIONS LETTER**

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P B T K

PIERCY BOWLER
TAYLOR & KERN

Certified Public Accountants
Business Advisors

Finance Committee
Southern Nevada Health District
330 South Valley View Boulevard
Las Vegas, Nevada 89107

RE: Required Communications

Ladies and gentlemen:

As part of our engagement to audit the basic financial statements of Southern Nevada Health District (the District) as of June 30, 2014, 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 District 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 District's basic financial statements contained in our report dated December 8, 2014, and these matters do not change that report.

The purpose of this communication is solely 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 District'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 District'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.

Piercy Bowler Taylor & Kern

December 8, 2014

Copies provided to:
Joseph Iser, MD, Chief Health Officer
Andy Glass - Director of Administration
Mars Patricio, Jr - Financial Services Manager

MANAGEMENT'S RESPONSIBILITY

Prior to issuance of the District's annual basic financial statements and our report thereon, it is management's responsibility to provide those charged with governance responsibilities, with detailed information related to the District'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 two significant adjustments to the District's basic financial statements. The effect thereof on the District's basic financial statements is summarized below and linked to a finding or comment about the significance of the related internal control deficiency in the "Matters Involving Internal Control" section.

<u>Adjustment(s) and related effect(s)</u>	<u>Link</u>
Recognition of grant revenue. To defer the recognition of \$452,949 of grant revenue at the fund level, which 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>i.e.</i> , full accrual) level, it increased deferred inflow of resources (unavailable revenue) and reduced fund balance in the District's general fund by \$452,949.	1
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)	2

DIFFICULTIES OR CONTENTIOUS MATTERS ENCOUNTERED IN PERFORMING THE AUDIT

Management cooperated fully, and no significant difficulties or contentious matters were encountered in completing the June 30, 2014, audit.

Although management cooperated fully during the audit, several grant compliance findings were noted which resulted in additional grant testing.

MATTERS INVOLVING INTERNAL CONTROL

We planned and performed our audit of the basic financial statements of the District as of June 30, 2014 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 District'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 District's basic financial statements. Such procedures were not performed for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 basic 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 District's basic 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:

<u>Link</u>	<u>Previously Reported</u>	<u>Type</u>	<u>Internal control deficiencies and/or other comments</u>
1	No	Significant deficiency	Revenue / receivable cut-off. 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.
2	No	Significant deficiency	Expenditure / payable cut-off. 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.
3	No	Significant deficiency	Internally developed software. 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, <i>Accounting and Financial Reporting for Intangible Assets</i> (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.

<u>Link</u>	<u>Previously Reported</u>	<u>Type</u>	<u>Internal control deficiencies and/or other comments</u>
4	Yes	Material weakness	Timeliness of remediation of internal control deficiencies. 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>i.e.</i> , fiscal 2015).

OTHER GOVERNANCE MATTERS

Auditors' responsibility under applicable professional standards. As stated in our report on the District's basic financial statements, our responsibility as independent auditors, under applicable professional standards, is to express an opinion, based on our audit, on the District's basic financial statements, which are the responsibility of the District'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 District's basic financial statements is limited to 1) reading such information to ascertain that it is materially consistent with information presented in the District's basic 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 District's basic 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 District's accounting and financial reporting.

Significant accounting policies. The significant accounting policies employed by the District are disclosed in the notes to the District's basic 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 and are not controversial or lacking in authoritative guidance or consensus.

Significant estimates. The basic financial statements do not contain any significant management estimates except with regard to the valuation of other post-employment benefits liability (including the related disclosures required by GASB Statement No. 45), workers compensation liability and the estimated useful lives of depreciable capital assets.

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.

Recently issued accounting pronouncements. In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2014. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. Management is currently awaiting the completed evaluation from the Public Employees Retirement System to complete its evaluation and determine the effect on the District's basic financial statements.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, to be applied simultaneously with the provisions of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of GASB Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Management is currently awaiting the completed evaluation from the Public Employees Retirement System to complete its evaluation and determine the effect on the District's basic financial statements.

Related parties. No significant audit issues were encountered in connection with the District'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 District's basic 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 District 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 District with any management consulting services.

Compliance with laws, regulations, contracts and grants. Compliance with laws, regulations, contracts and grants applicable to the District is the responsibility of the District's management. As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of the District'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 December 8, 2014, on our consideration of the District's internal control over financial reporting and on our tests of the District'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 the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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 December 8, 2014, on our consideration of the District'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 District'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 District's internal control over compliance. This report is an integral part of an audit performed in accordance with the requirements of OMB Circular A-133, 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 District's basic 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.