



December 10, 2013

Ms. Kelly Langley, Analyst  
Nevada Department of Taxation  
Local Government Budget Section  
1550 E College Parkway, Ste 115  
Carson City, NV 89706-7937

Dear Ms. Langley,

In response to our auditors' conclusion regarding the City of Sparks' compliance with Nevada Revised Statutes and Administrative Code, we offer the following plan of corrective action for those specific exceptions noted in Note 2 B & C on pages 32 & 33 of our Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013.

**Note 2 (B) Excess of Expenditure Over Appropriations violations**

**Actual expenditures exceeded those budgeted for the year in the public safety function of the Impact Fee Service Area No. 1 Special Revenue Fund by \$308, an apparent violation of NRS 354.626.**

**Corrective Plan:**

The City puts forth diligent effort to assure compliance with NRS and NAC. The code requires City staff to present budget adjustments to Council prior to June 30th each year. To allow for proper period reporting, the books are not closed until the end of August. Due to this conflict between proper financial reporting and Nevada requirements for budget adjustments, there is room for error. City staff will continue to make budget reviews and adjustments as close to the statutorily mandated date as possible in order to keep the over-expenditure amounts as small as possible.

**Actual operating and non-operating expenses, excluding depreciation, exceeded total appropriations of the Sewer Operations Enterprise Fund, Development Services Enterprise Fund, and the Motor Vehicle Maintenance Internal Service Fund by \$882,098, 85,414, and \$305,622, respectively, an apparent violation of NRS 354.626.**

**Corrective Plan:**

Sewer Operations Enterprise Fund: NRS 354.266 indicates that the expenditures of money in excess of budget are a violation of law. Depreciation and loss are non-monetary transactions that increase the expenses of the Sewer Operation Fund without directly impacting the exchange of money within the Sewer Operations Fund. It is the City's opinion that the loss recorded in the Sewer Operations Enterprise Fund due to operations at the Truckee Meadows Water Reclamation Facility should not be considered by the auditors as money expended. As such the Sewer Operations Enterprise Fund would not have been in violation.

Development Services Fund: The City puts forth diligent effort to assure compliance with NRS and NAC. A change in payroll allocation associated with a new payroll system resulted in a violation of operating budget. City staff will continue to make budget reviews and adjustments to avoid these errors in the future.

Motor Vehicle Maintenance Internal Service Fund: The City puts forth diligent effort to assure compliance with NRS and NAC. The re-class of mobile radios from Capital to Non-Capital resulted in a violation of operating budget. Budget did remain in the non-operating accounts and as a whole the fund did not spend more than was appropriated. City staff will continue to make budget reviews and adjustments to avoid these errors in the future.

**Actual operating and non-operating expenses, excluding depreciation, exceeded total appropriations of the Group Insurance Self-Insurance Internal Service Fund and the Workers' Compensation Insurance Internal Service Fund by \$426,173 and \$2,780,881, respectively. While these would appear to be an apparent violation of NRS, the over-expenditures occurred as a result of purchase of coverage and professional services directly related to a program of insurance. Such payments are specifically excluded from the over-expenditure provisions of NRS 354.626.**

No corrective action needed.

## **Note 2 (C) Compliance with Nevada Revised Statutes and Administrative Code**

**The City did not take an inventory of all its equipment and other personal property which constitute capital assets during the fiscal year ended June 30, 2013, 2012, or 2011, an apparent violation of NAC 354.750**

### **Corrective Plan:**

Inventories are maintained at a departmental level and reconciled to our capital asset financial system. Due to staff reductions and system conversion a complete City-wide inventory of capital assets has not been done. In fiscal year 2013 we were able to inventory all assets except buildings, land and Treatment Plant assets. In fiscal year 2012 we were able to inventory the Treatment Plant assets, so the requirement to audit every two years was lacking in building and land only. During fiscal year 2014 we are sending the building information to specific departments and developing a method to inventory land in compliance with our external auditor's recommendations.

**At June 30, 2013 the Community Development Entitlement Grant Special Revenue Fund owed the General Fund \$5,171. This balance is the result of carrying out grant activity on a reimbursement basis, and therefore at June 30, 2013 expenditures had been incurred that were not yet reimbursed from the grantor and required a temporary loan from the General Fund. The specific criteria set forth in NRS 354.6118 as clarified by NAC 354.290 regarding temporary loans were not followed, an apparent violation of NRS 354.6118 as clarified by NAC 354.290 (with an effective date of December 16, 2010).**

### **Corrective Plan:**

Statutory requirements stipulate that an interfund loan must be approved via a public hearing and that if a fund has a negative cash balance, then an interfund loan to cover that balance has implicitly been made. Most grant awards are reimbursement type awards, meaning we perform according to the grant guidelines and the grantor reimburses us for qualifying expenditures. The very nature of the program requires that we pay cash out before being reimbursed, which structurally presents the opportunity to result in a negative cash balance relating to grant transactions. We suggest that the Committee for Local Government Finance review these requirements and consider adjusting the language as it may relate to grant transactions. In the meantime, we will continue to manage the grant related cash flows to avoid the establishment of temporary inter-fund balances to the best of our ability in order to comply with the current statutory language.

This plan was approved by Sparks Council on December 9, 2013. The City of Sparks corrective plan of action includes continuously monitoring expenditures to ensure adequate resources are available to cover current year activities, and we are confident that this plan will continue to be successful. Please contact me if there are any questions on these compliance issues.

Sincerely,

Jeff Cronk, CPA  
Financial Services Director