



December 12, 2011

Mr. Tom Gransbery, Analyst  
Nevada Department of Taxation  
Local Government Budget Section  
1550 E College Parkway, Ste 115  
Carson City, NV 89706-7937

Dear Mr. Gransbery,

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 33 & 34 of our Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011.

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

**As of June 30, 2011, total:**

- expenditures exceeded those budgeted for the year in the public safety function of the Impact Fee Service Area No. 1, a nonmajor Special Revenue Fund, by \$14,424, an apparent violation of NRS 354.626, and
- expenditures exceeded those budgeted for the year in the community support function of the Tourism Improvement District 1, a nonmajor Special Revenue Fund, by \$10,091, 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. The amount of over-expenditure within each fund was relatively small. 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.

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

- 1. 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, 2011, 2010, or 2009, 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 City-wide inventory of capital assets has not been done. In fiscal year 2011 we were able to inventory the Treatment Plant assets and the Equipment Fund Assets. During fiscal year 2012 we will audit the remaining capital asset inventory in compliance with our external auditor's recommendations.

- 2. At June 30, 2011 the Community Development Entitlement Grant Special Revenue Fund owed the General Fund \$3,287 as evidenced by the line item "Due to Other Funds" on the Governmental Funds Balance Sheet. This balance is the result of carrying out grant activity on a reimbursement bases, and therefore at June 30, 2011 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 for interfund loans were put in place at the last legislative session. These 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 occasionally creates a negative cash balance. The Committee for Local Government Finance has indicated that they will be suggesting changes to the public hearing requirements as they relate to grants. They have mentioned proposing future legislation indicate that if Council was aware of the need to cover cash for reimbursement grant purposes, and the covering fund was identified, no public hearing would be required. City staff will attempt to notify Council of the need to cover cash shortfalls as the grants are presented for consideration. This will require training for staff report presentation. While this doesn't currently satisfy NRS, we believe that NRS requirements for interfund loans, as they relate to grants, are not reasonable, but will do all that we can to comply.

This plan was approved by Sparks Council on December 12, 2011. 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