



Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2020

County of Douglas, Nevada

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Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Honorable Board of Commissioners and Audit Committee
County of Douglas, Nevada

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and the aggregate remaining fund information of the County of Douglas, Nevada (County), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the County’s basic financial statements and have issued our report thereon dated November 25, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County’s internal control. Accordingly, we do not express an opinion on the effectiveness of the County’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* 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 and correct, 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 entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-006 to be a material weakness.

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 charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2020-001 through 2020-005 and 2020-007 through 2020-010 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County's Responses to Findings

The County's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs and separate corrective action plan. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sacramento, California
November 25, 2020



Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Honorable Board of Commissioners and Audit Committee
County of Douglas, Nevada

Report on Compliance for Each Major Federal Program

We have audited the County of Douglas, Nevada’s (County) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of the County’s major federal programs for the year ended June 30, 2020. The County’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the County’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County’s compliance.

Opinion on Each of the Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-011. Our opinion on each major federal program is not modified with respect to this matter.

The County's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and separate corrective action plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-011, that we consider to be a significant deficiency.

The County's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs and separate corrective action plan. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated November 25, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Sacramento, California
February 19, 2021

County of Douglas, Nevada
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/ Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Agriculture			
Passed through the South Tahoe Public Utility District			
Cooperative Forestry Assistance	10.664	17-DG-11052012-140	\$ 13,564
Total U.S. Department of Agriculture			<u>13,564</u>
U.S. Department of Housing and Urban Development			
Passed through State of Nevada Commission on Economic Development			
Community Development Block Grants/State's Program and			
Non-Entitlement Grants in Hawaii	14.228	17PF08	240,001
Total U.S. Department of Housing and Urban Development			<u>240,001</u>
U.S. Department of Interior			
Direct Programs			
Payment in Lieu of Taxes	15.226	N/A	735,440
Total U.S. Department of Interior			<u>735,440</u>
U.S. Department of Justice			
Direct Programs			
Rural Domestic Violence, Dating Violence, Sexual Assault,			
and Stalking Assistance Program	16.589	2017-WR-AX-0014	230,110
Project Safe Neighborhood - Safe Street	16.609	N/A	1,446
Passed through State of Nevada Office of Attorney General			
Violence Against Women Formula Grants	16.588	2019-VAWA-14	21,938
Passed through State of Nevada Department of Motor Vehicles and Public Safety			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	19-JAG-04	48,279
Edward Byrne Memorial Justice Assistance Grant Program	16.738	19 JAG 06	56,648
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			<u>104,927</u>
Total U.S. Department of Justice			<u>358,421</u>
U.S. Department of Transportation			
Direct Programs			
Airport Improvement Program - 31	20.106	3-32-0013-031-2017	63,094
Airport Improvement Program - 33	20.106	3-32-0013-032-2018	2,483,865
Subtotal Airport Improvement Program			<u>2,546,959</u>
Highway Planning and Construction Cluster			
Passed through Nevada Department of Transportation			
Highway Planning and Construction	20.205	P492-12-063	22,396
Highway Planning and Construction	20.205	PR056-15-063	30,842
Subtotal Highway Planning and Construction Program			<u>53,238</u>
Passed through Nevada Division of State Parks			
Recreational Trails Program	20.219	2015-11	49,700
Passed through Nevada Division of Public Safety, Emergency Management			
Recreational Trails Program	20.219	2015-11	10,810
Subtotal Recreational Trails Program			<u>60,510</u>
Subtotal Highway Planning and Construction Cluster			<u>113,748</u>

County of Douglas, Nevada
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/ Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Transportation (Continued)			
Passed through State of Nevada Department of Transportation Formula Grants for Rural Areas and Tribal Transit Program - FTA Section 5311 DART-2019	20.509	PR494-17-802	\$ 265,309
Formula Grants for Rural Areas and Tribal Transit Program - FTA Section 5311 DART-2020	20.509	PR401-18-802; PR504-19-802	645,579
COVID 19 - Formula Grants for Rural Areas and Tribal Transit Program - FTA Section 5311 DART	20.509	PR504-19-802 Amendment No. 1	<u>26,974</u>
Subtotal Formula Grants for Rural Areas and Tribal Transit Program			<u>937,862</u>
Federal Transit Cluster			
Passed through State of Nevada Department of Public Safety Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Program	20.526	N/A	<u>133,824</u>
Subtotal Federal Transit Cluster			<u>133,824</u>
Highway Safety Cluster			
Passed through State of Nevada Department of Public Safety National Priority Safety Programs - State and Community Highway Safety - Joining Forces Grant	20.616	JF-2020-DCSO-00036	<u>56,648</u>
Subtotal Highway Safety Cluster			<u>56,648</u>
Passed through State of Nevada Department of Public Safety			
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	19-HMEP-04-01	3,371
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	19-HEMP-04-04	<u>1,272</u>
Subtotal Interagency Hazardous Materials Public Sector Training and Planning Grants Program			<u>4,643</u>
Total U.S. Department of Transportation			<u>3,793,684</u>
U.S. Environmental Protection Agency			
Clean Water State Revolving Fund Cluster			
Passed through State of Nevada Department of Conservation and Water Resources Capitalization Grants for Clean Water State Revolving Funds	66.458	CS-32000118	<u>2,198,632</u>
Subtotal Clean Water State Revolving Fund Cluster			<u>2,198,632</u>
Total U.S. Environmental Protection Agency			<u>2,198,632</u>
U.S. Election Assistance Commission			
Passed through State of Nevada Office of the Secretary of State 2018 HAVA Election Security Grants	90.404	90.404-0005	<u>15,060</u>
Total U.S. Election Assistance Commission			<u>15,060</u>
U.S. Department of Health and Human Services			
Passed through Carson City, Nevada Health and Human Services Department Family Planning Services - Title X	93.217	N/A	<u>57,990</u>
Passed through State of Nevada Governor's Office of Economic Development Community Services Block Grant - 2017	93.569	N/A	<u>67,651</u>
Passed through Community Chest Inc. Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program	93.912	N/A	<u>42,001</u>

County of Douglas, Nevada
Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/ Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. Department of Health and Human Services (Continued)			
Passed through State of Nevada Department of Health and Human Services			
Block Grants for Community Mental Health Services	93.958	15949	<u>\$ 4,787</u>
Block Grants for Prevention and Treatment of Substance Abuse	93.959	N/A	<u>436,394</u>
Direct Program			
Aging Cluster			
Special Programs for the Aging, Title III, Part C, Nutrition Services - Congregate 2019	93.045	04-000-07-1X-18	63,487
Special Programs for the Aging, Title III, Part C, Nutrition Services - Homebound 2019	93.045	04-000-04-24-18	<u>253,470</u>
Subtotal Aging Cluster			<u>316,957</u>
Total U.S. Department of Health and Human Services			<u>925,780</u>
U.S. Social Security Administration			
Direct Programs			
Disability Insurance SSI Cluster			
Social Security - Disability Insurance (DI)	96.001	N/A	<u>2,200</u>
Total U.S. Security Administration			<u>2,200</u>
U.S. Department of Homeland Security			
Passed through State of Nevada Department of Public Safety			
Emergency Management Performance Grants	97.042	19-EMPG-9704219	<u>57,239</u>
BRIC: Building Resilient Infrastructure and Communities - State Route 88 Flood Mitigation Project	97.047	9704715-2506	<u>71,179</u>
Total U.S. Department of Homeland Security			<u>128,418</u>
Total Expenditures of Federal Awards			<u>\$ 8,411,200</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the County of Douglas, Nevada (County) under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented 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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position, or cash flows of the County.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the modified accrual basis of accounting for the governmental funds and the accrual basis of accounting for the proprietary funds. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in the prior year. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The County has not elected to use the 10-percent de minimis indirect cost rate.

Note 4 - Pass-Through Entities' Identifying Number

When federal awards were received from a pass-through entity, the Schedule shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the County has determined that no identifying number is assigned for the program or the County was unable to obtain an identifying number from the pass-through entity.

Note 5 - Catalog of Federal Domestic Assistance (CFDA) Numbers

The CFDA numbers included in this report were determined based on the program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes

Identification of major programs:

Name of Federal Program	CFDA Number
Airport Improvement Program	20.106
Formula Grants for Rural Areas and Tribal Program	20.509
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

2020-001 Review of Financial System User Roles

Criteria:

Internal controls should be established to ensure that user roles in the County’s financial system are reviewed on a regular basis.

Condition:

Significant Deficiency – Evidence of Information Technology Service (ITS) Department’s and Finance Department’s review of user roles in the County’s financial system was not documented or retained.

Context:

During our observation of the internal controls over the County’s user role process, we identified that there are not formal policies or procedures for the review of user roles in the County’s financial system, New World System (NWS), on a regular basis. ITS asserted that an informal review was being performed; however, the reviews are not required as there are not policies or procedures in place requiring the review. In addition, during our observation of the County’s human resources and cash disbursement processes, we noted that the Finance Department and ITS Department personnel have the ability to create vendors and approve payments to vendors. We also identified that the Finance Department personnel has the ability to make changes to employees’ pay rates without additional review or approval.

Repeat Finding from Prior Year(s):

Yes, prior year finding 2019-001.

Cause:

There are no policies or procedures in place requiring review of NWS user roles.

Effect:

There is an increased risk of inappropriate or erroneous entries made in the financial system due to inappropriate user roles and access rights.

Recommendation:

We recommend that management implement policies and procedures to document and retain evidence of the review of user roles in NWS and to ensure user roles are appropriately assigned.

Views of Responsible Officials and Corrective Action:

Management's or Department's Response:

We concur. See County's Separate Corrective Action Plan.

We agree with the recommendation to develop policies and procedures to document user roles and NWS and to ensure user roles are appropriately assigned. Finance Department staff will work with Information Technology Services to develop a policy that will outline processes and responsibilities and provide a timeframe for review of roles. Additionally, Finance staff have received a proposal for consulting services to assist with implementation.

<i>Name of Responsible Person:</i>	Terri Willoughby, CFO
<i>Name of Department Contact:</i>	Terri Willoughby, CFO
<i>Projected Implementation Date:</i>	June 30, 2021

2020-002

Disaster Recovery and Server Room & Backup Locations

Criteria:

A disaster recovery plan should be developed to ensure continuity of County services in the case of an emergency. Additionally, the County should relocate its server room and backup locations to safe locations.

Condition Found:

Significant Deficiency – The County did not have a disaster recovery plan and its server room and backup locations are not located in safe locations.

Context:

Based on inquiries of the County's Information Technology personnel, we identified that the County lacked a disaster recovery plan. Additionally, we noted that some County servers and backups are located in the basement. The offsite locations were also within relatively close proximity of the onsite server room.

Repeat Finding from Prior Year(s):

Yes, prior year finding 2019-002.

Cause:

The County did not have a disaster recovery plan documented, and the server room and backup locations are not safe for storing critical data.

Effect:

There is an increased risk of flood damage to the servers and backups as they are located in the basement. The risk of flood damage may potentially affect all recovery locations as they are within close proximity of the County. In addition, without a disaster recovery plan, the County's operations could be negatively impacted when disasters occur.

Recommendation:

We recommend that management implement a disaster recovery plan to prepare for any emergencies that may affect the County's operations. We also recommend that management to relocate its main server from the basement to higher elevations and to relocate its recovery servers outside of the County to mitigate risks of damage in the case of a disaster.

Views of Responsible Officials and Corrective Action:

Management's or Department's Response:

We concur. See County's Separate Corrective Action Plan.

We agree with the recommendation. On December 17, 2020, the Douglas County Board of County Commissioners authorized a contract with Tyler Technologies, the parent company of New World Systems. A key component of this contract includes having our New World Systems information hosted on shared hardware in a Tyler data center or third-party data center. These data centers have fully redundant telecommunications access, electrical power, and the required hardware to provide access to the Tyler Software (NWS) in the event of a disaster or component failure. Additionally, Technology Services staff is transitioning the County's data center to the second floor of the Town of Minden's Public Works building that is located at a remote site.

<i>Name of Responsible Person:</i>	Terri Willoughby, CFO
<i>Name of Department Contact:</i>	Terri Willoughby, CFO
<i>Projected Implementation Date:</i>	June 30, 2021

2020-003

Vendor File Maintenance

Criteria:

Internal controls should be established to ensure the creation of vendors and changes to the vendor master file in the County's financial system, New World System (NWS), is properly reviewed by management.

Condition Found:

Significant Deficiency – The County did not have a proper review process in place to ensure the validity of additions or changes made to vendor files in NWS.

Context:

During our observation of the internal controls over the County’s vendor file maintenance process, we identified that NWS does not prevent an individual from creating new vendors or making changes to existing vendor profiles. We noted that finance management reviews and approves the change report generated by NWS on a monthly basis; however, the review is a higher-level review that does not mitigate the risk of unauthorized changes made to the vendor files.

Repeat Finding from Prior Year(s):

Yes, prior year finding 2019-003.

Cause:

The County does not have an effective review process in place to keep track of additions or changes made to vendor files.

Effect:

There is an increased risk of error or fraud if the changes made to vendor files are not reviewed on a timely basis.

Recommendation:

We recommend that management implement policies and procedures to ensure changes made to vendor files are reviewed on a regular basis by personnel who understand the details of daily operations at their departmental level.

Views of Responsible Officials and Planned Corrective Actions:

Management’s or Department’s Response:

We concur. See County's Separate Corrective Action Plan.

This has been corrected by the County in January 2021. Staff that are able to create vendors are now excluded from the ability to enter invoices.

<i>Name of Responsible Person:</i>	Terri Willoughby, CFO
<i>Name of Department Contact:</i>	Terri Willoughby, CFO
<i>Projected Implementation Date:</i>	January 31, 2021

2020-004 Outdated Procurement Policies

Criteria:

Internal controls should be established to ensure that policies and procedures are reviewed and updated on a regular basis.

Condition Found:

Significant Deficiency – The County did not have a process in place to ensure procurement policies and procedures are updated on a regular basis.

Context:

While reviewing the County’s procurement process, we noted that the County’s procurement policy was last revised in 2008. With recent changes to procurement compliance requirements for federal awards, the County’s procurement policies and procedures may not be in compliance with Uniform Guidance.

Repeat Finding from Prior Year(s):

Yes, prior year finding 2019-004

Cause:

The County’s procurement policy is outdated as it was last revised more than ten years ago.

Effect:

There is a risk that procurements can be made that are not in compliance with various laws and regulations, include the Uniform Guidance.

Recommendation:

We recommend that management revisit the County’s outdated procurement policies and update it on a regular basis.

Views of Responsible Officials and Planned Corrective Actions:

Management's or Department's Response:

We concur. See County's Separate Corrective Action Plan.

Management agrees with the recommendation. An updated Procurement and Purchasing Policy was adopted by the Board of County Commissioners at its November 30, 2020 meeting. Subsequent training sessions were provided to Department Directors in weekly sessions in January 2021.

<i>Name of Responsible Person:</i>	Terri Willoughby, CFO
<i>Name of Department Contact:</i>	Terri Willoughby, CFO
<i>Projected Implementation Date:</i>	January 31, 2021

2020-005

Debt Covenants

Criteria:

Internal controls should be established to ensure compliance with the County's debt covenants.

Condition Found:

Significant Deficiency – Evidence of the review and approval of debt covenant calculations was not documented or retained.

Context:

During our observation of the internal controls over the County's debt management process, we identified that the County has incorporated the debt covenant calculations as part of the County's year-end closing procedures; however, the preparation and review processes for the calculations of debt covenants should be formally documented and performed prior to the start of the annual financial statements audit rather than the end of the calendar year.

Repeat Finding from Prior Year(s):

Yes, prior year finding 2019-007.

Cause:

The preparation and review processes of debt covenant calculations were not formally documented. In addition, the calculations should be performed on a timely basis.

Effect:

There is an increased risk of errors and non-compliance if the debt covenant calculations are not reviewed by management on a timely basis.

Recommendation:

We recommend that management implement policies and procedures to formally document the preparation and review of debt covenant calculations and to perform the calculation on a timely basis.

Views of Responsible Officials and Planned Corrective Actions:

Management's or Department's Response:

We concur. See County's Separate Corrective Action Plan.

Management agrees with the recommendation. A review of the County's debt covenants will be added to the Finance Department's annual year-end close checklist and procedures.

<i>Name of Responsible Person:</i>	Terri Willoughby, CFO
<i>Name of Department Contact:</i>	Terri Willoughby, CFO
<i>Projected Implementation Date:</i>	June 30, 2021

2020-006

County Assessor – Property Tax System

Criteria:

Internal controls should be established to ensure that the changes made to the County's property tax system, AS 400, are authorized.

Condition Found:

Material Weakness – Evidence of review and approval of the changes made to AS 400 was not documented or retained for entire fiscal year under audit.

Context:

During our observation of the internal controls over the County's property tax process, we identified that AS 400 did not have the ability to limit user access based on roles due to system limitations. As such, changes to property valuation and board approved tax rates can be altered by any user in AS 400 without being detected.

Repeat Finding from Prior Year(s):

Yes, prior year finding 2019-016.

Cause:

The County did not have controls in place to ensure all changes made to AS 400 are authorized for entire fiscal year under audit.

Effect:

There is an increased risk of error or fraud if there is no change control in place for the entire fiscal year to ensure changes made to AS 400 are reviewed and approved on a timely basis.

Recommendation:

We recommend that management continue to document and retain evidence of review and approval over the changes made to AS 400 for the entire fiscal year under audit.

Views of Responsible Officials and Planned Corrective Actions:

Management's or Department's Response:

We concur. See County's Separate Corrective Action Plan.

Management agrees with the finding and these criteria will be included in the future with the implementation of the new database software system, which is expected in January 2022. In the interim, the County Assessor has implemented an internal policy and process in which the Assessor's Administrative Services Manager prints a change log every two weeks for review and sign off by the County Assessor. These change logs are maintained for review by the auditors in the Assessor's office.

<i>Name of Responsible Person:</i>	Terri Willoughby, CFO
<i>Name of Department Contact:</i>	Terri Willoughby, CFO
<i>Projected Implementation Date:</i>	Interim-December 31, 2020 with new system in place by January, 2022.

2020-007 General Computing Controls – Exception Logs

Criteria:

System logs on hardware, software applications and server operating systems creates an investigative path to determine the nature and extent of a system breach or failure. In addition, systems should be reviewed, every 30-90 days, to ensure that terminated users have been removed, user roles changes have been removed, user role changes have been implemented, group access rights are appropriate and group membership is appropriate.

Condition Found:

Significant Deficiency – The County did not have policies and procedures in place to ensure exception logs are reviewed and that the reviews are documented.

Context:

A log server was installed in July 2015 and tested but has not been fully implemented. Although the log server is capable of exception reporting, it is currently configured to only gather data for investigative purposes and there is no documentation supporting the periodic review of the system log data.

As of April 2018, the County is now using Solar Winds to log specific types of events such as switch, Active Directory, password and server related events. There are also automatically generated reports related to modifications to the administrative groups. However, these logs are only reviewed when it is deemed necessary, generally upon notification of a potential problem.

Repeat Finding from Prior Year(s):

Yes, prior year finding 2019-018.

Cause:

The County does not have a formal policy to review when change logs are reviewed and what items are necessary to monitor.

Effect:

The lack of exception reporting and failure to periodically review system logs may result in unnoticed system breaches, unauthorized access, anonymous changes and malicious user access. This could lead to inappropriate modifications or loss of financial data and materially misstated financial statements.

Recommendation:

We recommend the County implement a procedure to ensure exception reports and logs are periodically reviewed and any unusual or executed activities (exception reporting) are promptly investigated and documented.

In addition, design, document and implement a process to periodically review (at least quarterly) and update user access rights.

Views of Responsible Officials and Planned Corrective Actions:

Management's or Department's Response:

We concur. See County's Separate Corrective Action Plan.

Management agrees with the finding. Technology Services has implemented Solar Winds & Arctic Wolf technology that is streamlining the logging process. Technology Services is working to ensure an efficient process in place to filter events to reflect those that are valuable and actionable and will then develop a review process.

<i>Name of Responsible Person:</i>	Terri Willoughby, CFO
<i>Name of Department Contact:</i>	Terri Willoughby, CFO
<i>Projected Implementation Date:</i>	June 30, 2021

2020-008 General Computing Controls – Payment Card Industry (PCI), Network Security

Criteria:

Internal controls should be established to ensure compliance with the most recent PCI standards.

Condition Found:

Significant Deficiency – The County did not have policies and procedures in place to ensure compliance with the most recent PCI standards.

Context:

The County did not have a plan to address identified security issues to ensure compliance with the most recent PCI standards which should include all 40 findings noted in the June 2015 PCI assessment.

Repeat Finding from Prior Year(s):

Yes, prior year finding 2019-019.

Cause:

The County does not have controls in place to ensure compliance with the most recent PCI standards.

Effect:

The lack of policies and procedures to ensure compliance with applicable PCI requirements could lead to misappropriation of card holder data and materially misstated financial statements.

Recommendation:

We recommend the County implement policies and procedures to ensure compliance with the most recent PCI standards.

Views of Responsible Officials and Planned Corrective Actions:

Management's or Department's Response:

We concur. See County's Separate Corrective Action Plan.

Management agrees with the finding. An updated PCI-DSS assessment has been completed by Moss Adams, and was approved by the County's Audit Committee and Board of County Commissioners at their November 30, 2020 meeting. Staff is working on developing a policy and subsequent procedures to address the findings in the assessment.

<i>Name of Responsible Person:</i>	Terri Willoughby, CFO
<i>Name of Department Contact:</i>	Terri Willoughby, CFO
<i>Projected Implementation Date:</i>	June 30, 2021 (policy)

2020-009

Capital Assets

Criteria:

Internal controls should be established to ensure the information reported in the capital assets rollforward reconciles to the County's general ledger system, and the rollforward should be reviewed and finalized prior to the annual financial statements audit.

Condition Found:

Significant Deficiency – The County did not have a formal reconciliation process in place to ensure the information reported in the capital assets rollforward reconciles to County’s general ledger system. In addition, the County did not have policies and procedures in place to ensure the preparation and review of the capital assets rollforward is performed timely.

Context:

Based on our audit procedures performed over our understanding of the County’s capital assets process, we identified that the County did not have reconciliation processes to ensure the information reported in the capital assets rollforward reconciles to the County’s general ledger system. Based on our audit procedures performed over the capital assets rollforward, we identified that multiple versions of the capital assets rollforward were provided by the County as the information reported in the capital assets rollforward did not reconcile to the general ledger details provided.

Repeat Finding from Prior Year(s):

No

Cause:

The County did not have a formally documented reconciliation process and that the capital assets rollforward was not formally reviewed and finalized prior to the financial statements audit.

Effect:

The lack of reconciliation and review processes over the preparation of the capital assets rollforward could lead to material misstatements in the financial statements.

Recommendation:

We recommend the County to implement policies and procedures over the reconciliation of capital assets rollforward and the review and approval of the capital assets rollforward.

Views of Responsible Officials and Planned Corrective Actions:

Management's or Department's Response:

We concur. See County's Separate Corrective Action Plan.

Management agrees with the finding. The County's capital asset sub ledger is reconciled to the general ledger on a quarterly basis to ensure that all general ledger activity pertaining to capital assets (expenditures, depreciation etc.) are appropriately reflected in both systems. This reconciliation is prepared by the Accountant and reviewed by the Finance Manager. Additionally, internal deadlines have been established for the preparation of the rollforward to ensure it is complete prior to the annual financial audit.

Additionally, staff have been provided training in capital asset subject matter to improve their understanding of capital asset accounting concepts.

<i>Name of Responsible Person:</i>	Terri Willoughby, CFO
<i>Name of Department Contact:</i>	Terri Willoughby, CFO
<i>Projected Implementation Date:</i>	June 30, 2021

2020-010 Preparation of Schedule of Expenditures of Federal Awards (SEFA)

Criteria:

Internal controls should be established over the SEFA preparation process in which the preparation and review functions are segregated to ensure completeness and accuracy of the schedule.

Condition Found:

Significant Deficiency – The County did not have a formal review process in place over the SEFA preparation process.

Context:

Based on our audit procedures performed over the SEFA, we identified that the SEFA did not go through a formal review process as it was prepared and approved by one individual which led to \$26,974 of adjustments being made to the SEFA under audit.

Repeat Finding from Prior Year(s):

No

Cause:

The County did not have a formally documented review process in place to ensure the SEFA is prepared and reviewed by separate individuals.

Effect:

The lack of review over the preparation of the SEFA could lead to material misstatements to the SEFA and or financial statements.

Recommendation:

We recommend the County to implement policies and procedures to the SEFA preparation process to ensure the SEFA is prepared and reviewed by separate individuals.

Views of Responsible Officials and Planned Corrective Actions:

Management's or Department's Response:

We concur. See County's Separate Corrective Action Plan.

Management agrees with the finding. Staff duties are being rearranged to ensure that the preparation and review functions of the SEFA preparation are segregated.

<i>Name of Responsible Person:</i>	Terri Willoughby, CFO
<i>Name of Department Contact:</i>	Terri Willoughby, CFO
<i>Projected Implementation Date:</i>	June 30, 2021

Section III – Federal Award Findings and Questioned Costs

2020-011 **Program:** Formula Grants for Rural Areas and Tribal Transit Program
CFDA No.: 20.509
Federal Agency: Department of Transportation
Passed-through: State of Nevada Department of Transportation
Award Year: October 1, 2018-September 32, 2019; October 1, 2019-September 30, 2020
Compliance Requirement: Allowable Costs/Cost Principles
Grant Award Number: PR401-18-802, PR504-19-802

Criteria:

2 CFR Section 200.412 *Classification of costs* states that there is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards.

Condition:

Significant Deficiency, Instances of Noncompliance – As a result of our audit procedures, we noted 3 of 12 monthly claims in which the indirect costs charged to the program were not properly supported.

Questioned Costs:

We noted known questioned costs of \$26,204.

Context:

As a result of our understanding of the program’s indirect cost rate calculation, we noted that the County’s indirect costs rate was calculated based on an indirect costs pool consisting of administrative salaries and benefits. However, based on a nonstatistical sample of 3 of 12 total claims tested, we noted that administrative salaries and benefits were charged to the program as direct costs. In addition, the County also charged indirect costs to the program derived from the program’s total salaries and benefits, which consisted of administrative salaries and benefits, multiplied by the indirect cost rate.

Repeat Finding from Prior Year(s):

No

Cause:

The County did not have formal policies and procedures in place to ensure the indirect costs were properly charged to the program.

Effect:

Claims submitted by the County may not be accurate or fully supported, thus increasing the risk of noncompliance with the requirements of the program.

Recommendation:

We recommend that the County implement policies and procedures to ensure indirect costs being charged to the program are appropriate.

Views of Responsible Officials and Planned Corrective Actions:

Management's or Department's Response:

We concur. See County's Separate Corrective Action Plan.

This item has been corrected for FY21. The indirect rate of 10% is now being applied only to the direct labor expenses associated with the grant. Administrative Salaries are no longer being booked as expenses towards the grant, but instead are included as part of the 10% indirect costs.

The procedures that will be in place to ensure that indirect costs charged to the grant are appropriate will be as follows:

Direct Labor hours for drivers will be entered on their timesheets and reviewed and approved by the Transportation Supervisor. Direct Labor hours for other staff (Budget Analyst, Recreation Supervisor, and Secretary) will be documented on timesheets. These timesheets will be reviewed and approved by the Community Services Manager or the Community Services Director.

The Budget Analyst will calculate the indirect costs as 10% of the total direct labor charges. These charges will be included, along with all other expenses, on the monthly Request for reimbursement that is submitted to Nevada Department of Transportation (NDOT). NDOT also reviews the indirect charges for reasonableness, along with their review of all other grant related expenses.

The County's Finance Department will perform a final review when the entries to record the grant reimbursements are submitted.

<i>Name of Responsible Person:</i>	Geoff Bonar, Budget Analyst
<i>Name of Department Contact:</i>	Geoff Bonar, Budget Analyst
<i>Projected Implementation Date:</i>	Retroactive to July 1, 2020

County of Douglas, Nevada
 Summary Schedule of Prior Audit Findings
 Year Ended June 30, 2020

Summarized below is the current status of all audit findings reported in the prior year audit’s schedule of audit findings and questioned costs.

Finding No.	Program Name/Description	CFDA No.	Compliance Requirement	Status of Corrective Action
2019-001	Review of Financial System User Roles	N/A	N/A	Not Implemented - See current year Finding 2020-001
2019-002	Disaster Recovery and Server Room & Backup Locations	N/A	N/A	Not Implemented - See current year Finding 2020-002
2019-003	Vendor File Maintenance	N/A	N/A	Not Implemented -See current year Finding 2020-003
2019-004	Outdated Procurement Policies	N/A	N/A	Not Implemented -See current year Finding 2020-004
2019-005	Accounts Payable Vouchers	N/A	N/A	Implemented
2019-006	Procurement Card Application	N/A	N/A	Implemented
2019-007	Debt Covenants	N/A	N/A	Not Implemented -See current year Finding 2020-005
2019-008	County Treasurer - Wire Transfers	N/A	N/A	Implemented
2019-009	County Treasurer - Cash Collection Process	N/A	N/A	Implemented
2019-010	Airport – Cash Receipt Process	N/A	N/A	Implemented
2019-011	Airport - Reconciliation of Revenues	N/A	N/A	Implemented

County of Douglas, Nevada
 Summary Schedule of Prior Audit Findings (Continued)
 Year Ended June 30, 2020

Finding No.	Program Name/Description	CFDA No.	Compliance Requirement	Status of Corrective Action
2019-012	Town of Minden - Water Meter Reads	N/A	N/A	Implemented
2019-013	Town of Minden – Rate Changes	N/A	N/A	Implemented
2019-014	Community Development Department (Building Division) - Rate Changes	N/A	N/A	Implemented
2019-015	Community Development Department (Building Division) - Reconciliation of Daily Payments	N/A	N/A	Implemented
2019-016	County Assessor – Property Tax System	N/A	N/A	Partially Implemented - See current year Finding 2020-006
2019-017	Financial Reporting	N/A	N/A	Implemented
2019-018	General Computing Controls – Exception Logs	N/A	N/A	Not Implemented - See current year Finding 2020-007
2019-019	General Computing Controls – Payment Card Industry (PCI), Network Security	N/A	N/A	Not implemented - See current year Finding 2020-008
2019-020	Capital Assets	N/A	N/A	Implemented
2019-021	Audited Allocation Schedule of Pension Amounts for the JRS Pension Plan	N/A	N/A	Implemented
2019-022	Airport Improvement Program	20.106	Special Tests and Provisions - Revenue Diversion	Implemented