



A Professional Corporation

December 10, 2017

To the Honorable Board of Directors
East Fork Fire Protection District
Minden, Nevada

In planning and performing our audit of the financial statements of the East Fork Fire Protection District for the six month period ending June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, 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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control.

However, during our audit we became aware of the following matters that are opportunities to strengthening internal controls and operating efficiency. The discussion below summarizes our comments and suggestions regarding this matter. This letter does not affect our *Report on Internal Control over Financial Reporting and On compliance and Other Matters Based on an Audit of Financial Statement Performed in Accordance with Government Auditing Standards*.

Recommendations

Internal Control Policies

There has been a significant increased interest in the internal control systems of governmental entities in response to public perception that weaknesses are leading to inefficient and/or inappropriate use of public funds. This resulted in changes in the way auditors' must assess and report on an auditee's internal control system. The Governmental Auditing Standards, published by the Comptroller General of the United States, require audits of financial statements to now include a more in-depth assessment and report of internal accounting controls. In September 2014 they issued *Standards for Internal Control in the Federal Government* ("Green Book") which audit standards now refer to as a basis for local governmental entities to use in establishing their own internal control systems and auditors should use in our assessment. Consequently, local governments can expect to see more scrutiny placed on their control systems as the standards evolve and are implemented.

A cornerstone of internal control system is the system's ability to prevent or detect errors or misstatements on a timely basis. Timely basis means the control activity is performed on an ongoing basis appropriate for the respective transaction for which the control is designed. There are five components to an effective internal control system: control environment, risk assessment, information and communication, and monitoring.

Recommendation: With the recent change in governance structure, we believe it is a good time to assess the District's internal controls including the role the governing board will play in the control system. The *Standards for Internal Control in the Federal Government* ("Green Book") is a good resource and is available on-line. The document presumes the

internal control process and procedures over the significant transactional cycles be documented in writing. Documentation has numerous benefits including providing consistency in operations, communicating responsibility and authority, and improves assessments and monitoring.

Adjusting Journal Entries

Observation: Adjusting journal entries are a necessary component to any accounting system allowing for the recording non-routine transactions and correction of posting errors. Studies have revealed that many fraudulent accounting schemes involve the manipulation of internal general ledger accounts by adjusting journal entries.

Recommendation: We recommend the District develop a policy that requires all adjusting journal entries reviewed and approved by a person other than the initial preparer of the journal entry in efforts to strengthen the existing internal control system.

Grant Reporting

Observation: The District typically is awarded several reoccurring grants as an integral part of its daily operations. A couple of these grants are received as pass-through grants via Douglas County to the District. One audit technique in testing proper year-end cut-off of grant expenditures is to review subsequent grant remittances. In the first few days of December 2017, the District has received a nominal amount of grant revenue reimbursements.

Recommendation: We recommend the District review its current grant reimbursement claim procedures to ensure accurate and timely grant reporting.

Nevada Revised Statutes

Observation: With the District becoming its own separate entity, there has been an increase in responsibility assigned to District staff. One of those responsibilities is assuring compliance with Nevada statutes (NRS) and administrative code (NAC). The District must have a good working knowledge of the laws and regulations including NRS 354, pertaining to financial operations (budgeting, accounting, property inventories) and NRS 332, local government purchasing.

Recommendation: We recommend the District devote time in researching and becoming familiarized with the Nevada Revised Statues with a concentration on Chapters 354 Local Finance Administration and 332 Local Government Purchasing and the associated sections of the Nevada Administrative Code.

Sincerely,

Sciarani & Co.