



State of Nevada  
Governor's Finance Office  
Division of Internal Audits

**Audit Report**

**Department of Conservation and  
Natural Resources**

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**Division of Water Resources.2**

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**Water Assessments and Cost Allocations**

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**Revising the water assessment and cost allocation  
methodologies will enhance equitability for water users.**

DIA Report No. 23-03  
June 28, 2023

**EXECUTIVE SUMMARY**  
**Department of Conservation and Natural Resources**  
**Division of Water Resources.2**  
**Water Assessments and Cost Allocations**

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**Objective: Enhance Water Assessment and Cost Allocation Equitability.**

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**Reinstate the Former Water Assessment Methodology for Municipal Water Users** ...page 2

Reinstating the former water assessment methodology will enhance fee equitability for municipal water users. The current water assessment methodology has resulted in residential, commercial, and industrial water users paying the same flat fee regardless of water use or property value. Assessments represent the total water management costs of a water basin, divided among the users.

Pursuant to Department of Taxation guidance, municipal water users are charged a flat fee for the costs associated with managing their water basin. Former guidance recommended assessments be based on the assessed property value. The former assessment methodology attempted to correlate the value of a property with water usage resulting in a commercial building with a higher assessed property value paying a greater fee than a small residence. Reinstating the former water assessment methodology based on assessed property value rather than a flat fee will more equitably allocate basin management costs and ensure that property owners' assessments are proportionate to the benefit received from the water management services in their basin.

**Develop an Equitable Basin Cost Allocation Methodology Consistent with Accounting Best Practices**.....page 11

Developing an equitable basin cost allocation methodology consistent with accounting best practices will ensure the costs of water management are fairly and proportionately allocated between water basins. NDWR uses the cash balances of the basin budget accounts as the basis for allocating indirect costs. Larger basin budget accounts effectively subsidize the indirect costs of smaller basin budget accounts.

The current indirect cost allocation methodology perpetuates the imbalances of basin budget accounts because misallocated costs in the current year impact water assessment fees charged in the following year. Accounting best practices require cost allocations to be both reasonable and consistently applied; costs cannot be allocated to a funding source because there are more funds available. An accurate allocation of indirect costs is necessary to ensure water assessments are fair. These costs are ultimately paid by water users; therefore, inaccurate allocations impact fee equitability for Nevadans.

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## INTRODUCTION

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At the direction of the Executive Branch Audit Committee, the Division of Internal Audits (DIA) conducted an audit of the Department of Conservation and Natural Resources, Division of Water Resources (NDWR). The audit focused on enhancing water assessment and cost allocation equitability. The audit's scope and methodology, background, and acknowledgements are included in Appendix A.

DIA's audit objective was to develop recommendations to:

- ✓ Enhance water assessment and cost allocation equitability.

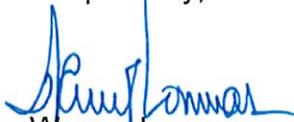
### **Department of Conservation and Natural Resources Division of Water Resources Response and Implementation Plan**

DIA provided draft copies of this report to NDWR for review and comment. NDWR's comments have been considered in the preparation of this report; NDWR's response is included in Appendix B. In its response, NDWR accepted the recommendations. Appendix C includes a timetable to implement the recommendations.

NRS 353A.090 requires within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps NDWR has taken to implement the recommendations and shall determine whether the steps are achieving the desired results. The administrator shall report the six-month follow-up results to the committee and NDWR.

The following report (DIA Report No. 23-03) contains DIA's *findings, conclusions, and recommendations*.

Respectfully,



Warren Lowman  
Administrator

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## **Enhance Water Assessment and Cost Allocation Equitability**

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The Department of Conservation and Natural Resources, Division of Water Resources (NDWR) can enhance water assessment and cost allocation equitability by:

- Reinstating the former water assessment methodology for municipal water users; and
- Developing an equitable basin cost allocation methodology consistent with accounting best practices.

Enhancing the equitability of water assessments and cost allocations will ensure water management costs are proportionately paid by those who benefit from water management services.

### ***Reinstate the Former Water Assessment Methodology for Municipal Water Users***

The Department of Conservation and Natural Resources, Division of Water Resources (NDWR) should consult with the Department of Taxation (Taxation) to reinstate the former water assessment methodology for municipal water users. Reinstating the former methodology to be based on the assessed property value rather than a flat fee will enhance equitability. Using the assessed value of property instead of a flat fee will not increase total collections but will change the assessment amount for municipal water users. Most residential property owners will pay a lower water assessment amount than commercial property owners using the recommended methodology.

### **Designated Water Basins Are Monitored by the State Engineer**

In Nevada, a designated water basin is a geographically identified water supply that requires monitoring by the State Engineer. There are two types of water basins in Nevada. Basins are classified based on whether the water is predominantly used for agricultural purposes or non-agricultural purposes (municipal). Municipal basin costs are paid by property owners; agricultural basin costs are paid by water rights holders.

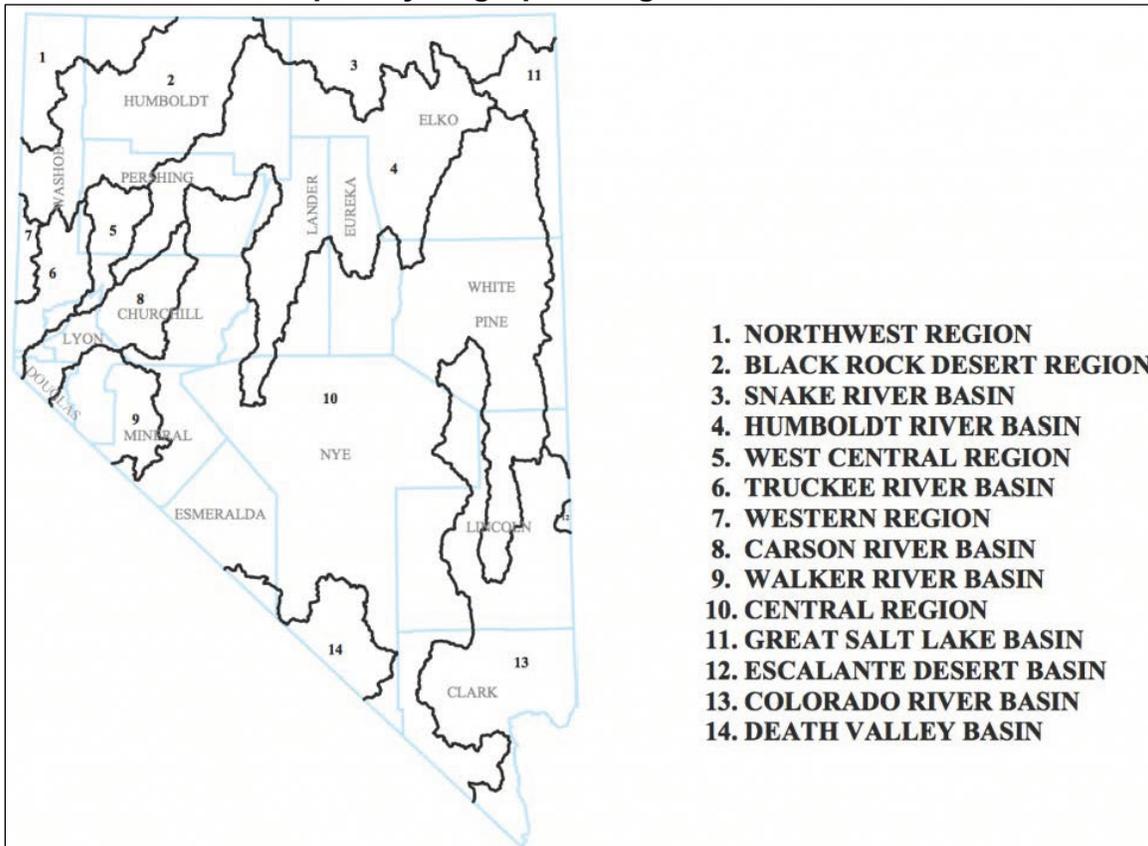
The assessment methodology used for predominantly agricultural purposes is based on the proportion of water rights owned to the total water rights within the basin. Using this fee methodology, a rancher that owns 10% of the water rights in a designated agricultural water basin would pay 10% of the attributable costs of managing that basin. Water users that do not own water rights within the

designated agricultural basin do not pay the assessment. This assessment methodology is more equitable because it is based on water ownership rather than a flat fee.

Municipal water assessments are based on a flat fee that does not consider water ownership, water usage, or property value. Exhibit I shows a map of the 14 hydrographic regions throughout the state wherein the 141 designated water basins are located.

**Exhibit I**

**Map of Hydrographic Regions in Nevada**



Source: Central Nevada Regional Water Authority.

**Statute Requires the State Engineer to Maintain Designated Water Basins**

Statute requires the State Engineer to maintain designated water basins. Basins may be designated by the State Engineer in two ways: 1) through a petition process; or 2) as determined necessary by State Engineer. NRS 534.040 requires NDWR to employ well supervisors and assistants to maintain the basins including: periodic site inspection; monitoring water levels; infrastructure and equipment inspection and maintenance; and miscellaneous repairs. This report evaluates the

assessment equitability for water users located in designated municipal water basins.

NDWR maintains separate accounts for each basin to track costs. These costs are used to estimate how much funding will be necessary to maintain each basin in the following year. The estimated cost of managing each basin in the following year includes salaries, supplies, equipment, maintenance, travel, and operating and overhead expenses.

NDWR also factors into the estimate the projected costs of any basin projects scheduled in the following year. NDWR bills Nevada counties with designated municipal water basins for the estimated costs associated with managing the basins located within each county.

#### NDWR Bills Counties Annually to Fund Basin Management Costs

NDWR bills counties for the water management costs attributable to the designated municipal water basins in their respective counties. Counties levy water assessments via county property tax bills that are remitted to NDWR to fund basin management activities and the associated costs. County commissioners levy the water assessment on municipal property owners within the boundaries of the basin to pay NDWR.

The water assessment becomes part of the annual real property tax bill. The water assessment is listed as a separate line item on the billing statement. Exhibit II shows a water assessment for the Truckee/Sun Valley Water Basin on a property tax bill for a Washoe County resident.

**Exhibit II**

**Annual Property Tax Bill Example**

TAX YEAR	PIN	NAME	PROPERTY LOCATION AND DESCRIPTION		
2022	00374033				
AREA	TAX RATE				
1000	3.6800000000				
ASSESSED VALUATION			EXEMPTION VALUES		
LAND		30,051	EXEMPTION		0.00
IMPROVEMENT		38,260			
TOTAL ASSESSED VALUE		68,311			
2022 ACCOUNT SUMMARY					
GROSS AD VALOREM TAX		2,500.18			
ABATEMENT AMOUNT		-964.04			
*ABATEMENT APPLIED LIMITS INCREASE TO 8.0%*					
RECAPTURE TAX		0.00			
NET AD VALOREM TAX		1,536.14			
EXEMPTION AMOUNT		0.00			
SPECIAL ASSESSMENTS		7.67			
PENALTIES		0.00			
FEES		0.00			
INTEREST		0.00			
TOTAL AMOUNT BILLED		1,543.81			
LESS PAYMENTS APPLIED		1,543.81			
BALANCE REMAINING		0.00			
PRIOR YEAR DELINQUENCIES		0.00			
TOTAL BALANCE OWING		\$0.00			
Amount good through 03/29/2023					
2022 BILLING DETAIL					
TAXING AGENCY	RATE	AMOUNT	SPEC. ASSESSMENTS	RATE	AMOUNT
STATE OF NEVADA	0.170000000	71.35	REMEDICATION		5.68
SCHOOL DEBT	0.388500000	163.06	TRUCKEE/SUN VLY WATER BASIN		1.99
SCHOOL GENERAL	0.750000000	314.78			
COUNTY GENERAL	1.351700000	567.32			
COUNTY DEBT	0.010000000	4.20			
ANIMAL SHELTER	0.030000000	12.59			
RENO GENERAL	0.959800000	402.84			

Source: Washoe County Assessor.

Nye County Has Not Remitted the Water Assessment For Fiscal Year 2023

Nye County did not assess property owners for the fiscal year 2023 basin management costs of \$137,000. The county commission initially voted to not levy and remit the water assessment because the commissioners interpreted the assessment as a tax increase that was not consistent with the prior administration’s commitment of “no new taxes.” At the County Commissioner’s board meeting, the Attorney General’s Office opined that the water assessment is not a tax, but rather it is a fee for services rendered and goods received.

Subsequently, Nye County informed NDWR that the county commission approved the water assessment and will make one lump sum payment in the following year. It is unclear if the lump sum payment will include the following year's assessment with the unpaid assessment.

### **Water Assessment Methodology for Municipal Basins Shifted to a Flat Fee in 2016**

The water assessment methodology guidance issued by Taxation was revised on April 7, 2016, stating that using a flat fee is the preferred methodology. The department was unable to document the rationale for the change. Consequently, the water assessment methodology changed from being based on assessed property value to a flat fee wherein all water users pay the same amount regardless of property value, size, or water usage.

Prior to issuance of Taxation Guidance Letter 16-001, the water assessment was based on the assessed property value. The water assessment was a rate calculated by dividing the individual owner's assessed property value by the total assessed value of all property within the confines of a water basin. Statute mandates counties levy a water assessment annually, or at such time as needed, upon all taxable property situated within the confines of a particular water basin designated by the State Engineer.<sup>1</sup>

#### Counties Assess a Flat Fee on Municipal Water Users In Accordance with Department of Taxation Guidance

Counties assess a flat fee on municipal water users in accordance with Taxation guidance. The flat fee methodology divides the total basin water management costs estimated by NDWR by the number of Assessor Parcel Numbers (APN). This results in a flat fee being charged to each APN via the county's property tax roll, regardless of assessed property value or actual water use.

Prior to issuance of this guidance letter, water assessments were based on assessed property value. The former assessment methodology attempted to correlate the value of a property with water use. A large residence or commercial building with a higher assessed property value would pay a greater amount than a small residence.

The current assessment methodology has resulted in residential, commercial, and industrial water users paying the same water assessment fee regardless of water use or property value. A casino located on 74 acres of land pays the same fee as a small home. Exhibit III shows a sample of water users in the Las Vegas Basin, the property owned, and the annual water assessment fee.

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<sup>1</sup> NRS 534.040(2).

**Exhibit III**

**Sample of Las Vegas Basin Properties and Annual Water Assessment Fee**

Address	Acres	Description	Assessed Value	Flat Fee
Via Torino Street	0.11	2 bed 2 bath	\$35,319	\$ 3.08
Powell Avenue	0.17	4 bed 2 bath	\$55,246	\$ 3.08
McKellar Circle	0.12	2 bed 1 bath	\$57,721	\$ 3.08
Palms Center Drive	0.68	Commercial	\$323,111	\$ 3.08
W. Cheyenne Avenue	3.20	Construction	\$789,961	\$ 3.08
S. Las Vegas Boulevard	74.2	Hotel Casino	\$645,674,986	\$ 3.08

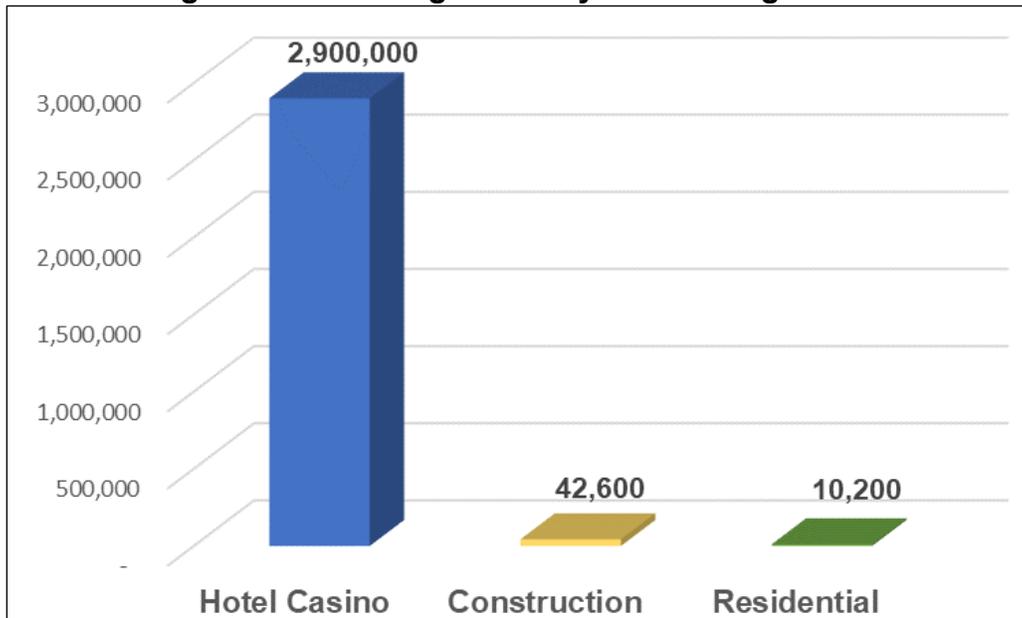
Source: Clark County Assessor.

**Significant Difference Between Residential and Commercial Water Use**

According to data obtained from the Las Vegas Valley Water District, a significant difference exists in water consumption between residential and commercial users. Exhibit IV shows the current average monthly usage of some municipal water users within the Las Vegas Basin.

**Exhibit IV**

**Las Vegas Basin Average Monthly Water Usage in Gallons**



Source: Las Vegas Valley Water District.

Data shows there is a significant difference in water usage between types of consumers. Residential users consume an average of 10,200 gallons per month, compared to the average monthly consumption of construction companies and hotel casinos of 42,600 and 2.9 million gallons, respectively. In Las Vegas, the gap between residential and commercial water use is substantial. Assessing a flat fee to all users regardless of property size or water consumption is inequitable to residential water consumers who use significantly less water.

## **Municipal Water Assessments Are Not Based on Actual Water Used**

Municipal water assessments are not based on the actual amount of water used. Rather, the water assessment represents the total management costs of the respective water basin, divided amongst the users. Actual water consumption cannot be currently determined for all water users and is not a practical basis for allocating costs to municipal users. For example, not all residential well water is metered, and metered water use is not necessarily reported for all users. Measuring water consumption across all water users within a basin would be cost prohibitive and require additional reporting infrastructure.

### Previous Assessment Methodology Based on Assessed Property Values Already Established

The assessment methodology recommended by Taxation prior to the 2016 change in guidance was based on assessed property values already established by counties. This meant that residential water users paid less for water assessments than large commercial water users because residential property typically has a lower assessed value than commercial property. This methodology did not correlate the water assessment amount to actual water used, but it more closely allocated the costs of water management to those using more water.

Municipal users are the direct beneficiaries of the water from these designated water basins. The ideal methodology for assessing water users for the cost of managing their basin would be based on actual water use; however, counties do not know how much water is being used by all users because protocols are not in place to measure water consumption. In lieu of charging users based on consumption, counties bill property owners for the water assessment using a flat fee. A flat fee is inequitable to residential water users due to the large disparity in water consumption between residential and commercial properties.

### Mechanism In Place to Proportionately Assess Users

A mechanism is in place to proportionately assess water users for the costs of managing the basins: the assessed value of the property used for property tax purposes. County Assessors maintain data on the taxable and assessed values of properties in their counties. Additionally, County Assessors assess other taxes based on the same value. Water assessments based on property value will more closely correlate with water consumption.

## **Using Assessed Property Value Will Equitably Allocate Management Costs**

Using the assessed property value will:

- equitably allocate basin management costs to water users;
- take into consideration the value of water rights; and
- ensure that property owners' water assessments are proportionate to the benefits received from the designated water basins.

A value-based water assessment methodology adjusts the fee paid to reflect changes in the property's value over time. This approach would ensure water assessments are equitable over time.

### Reinstating Previous Assessment Methodology Will Not Cause Significant Implementation Costs

Reinstating the previous water assessment methodology based on assessed property value will not result in significant implementation costs. Taxation indicated that there will be no significant logistical impact to reinstating the former water assessment methodology.

Clark County and Washoe County indicated that there will be minimal programming changes required to reinstate the former assessment methodology. Property values are periodically evaluated by the County Assessors' offices and updated on the tax roll. The assessment process accounts for a variety of factors including property size and fair market value. Current annual tax bills include the assessed value of the property.

Implementing a value-based approach for water assessments will not increase administrative costs or result in billing delays. Basing the water assessment on a ratio determined by assessed value will shift more of the cost burden from residential users to commercial users and will ensure a more equitable allocation of basin costs among those who receive the benefit.

## ***Conclusion***

Water assessments levied on municipal water users are inequitable because a flat fee is charged regardless of water use or property value. This practice has resulted in residential property owners paying the same fee as hotel casinos that use significantly more water. Residential property owners effectively subsidize the basin water management costs of commercial and industrial property owners. A mechanism is in place to proportionately assess water users for the costs of managing the basins: basing the water assessment on assessed property value. Reinstating the former water assessment methodology that is based on assessed property value will ensure water management costs are proportionately paid by those who benefit from the water management and will enhance assessment equitability for municipal water users.

## ***Recommendation***

1. Reinststate the former water assessment methodology for municipal water users.

## ***Develop an Equitable Basin Cost Allocation Methodology Consistent with Accounting Best Practices***

The Department of Conservation and Natural Resources, Division of Water Resources (NDWR) should develop an equitable basin cost allocation methodology consistent with accounting best practices. Developing an equitable basin cost allocation methodology consistent with accounting best practices will ensure water management costs are proportionately allocated among the water basins.

### **Costs of Managing Water Basins are Disproportionately Allocated**

The costs of managing water basins are disproportionately allocated. Basin budget accounts with large cash balances pay more indirect costs than other basin budget accounts with lower cash balances. NDWR tracks the costs incurred in managing the water basins. Costs are a combination of direct and indirect costs. Direct costs are operating costs that can be directly attributed to a specific basin such as the salaries of well supervisors and assistants. Indirect costs are costs that are incurred for a common or joint purpose benefiting more than one water basin. Examples of indirect costs are salaries of the employees who perform accounting and administrative job functions related to basin management, equipment and supplies that benefit all the basins, and travel expenses of employees who provide services to multiple basins.

### Cash Balances of Basin Budget Accounts Are Used as the Basis for Allocating Indirect Costs

NDWR uses the cash balances of the basin budget accounts as the basis for allocating indirect costs. Basin budget accounts with a larger cash balance on the allocation date arbitrarily pay for a greater percentage of indirect costs, while basin budget accounts with a lower cash balance do not pay a proportionate share toward indirect costs. Basins that are underpaying for indirect costs will end the fiscal year with more cash on hand than they ought to have.

Direct costs are charged directly to the respective basin accounts. Indirect costs are initially paid from the State Engineer's administrative budget account or from the Las Vegas Basin's budget account. Indirect costs are allocated to the respective basin budget accounts. NDWR uses the cash balances available at the time of allocation as the basis for the indirect cost allocation to avoid having a negative cash balance in any account. An account is never charged for indirect costs that would exceed its cash on hand.

## Larger Basin Budget Accounts Subsidize the Indirect Costs of Smaller Basin Budget Accounts

Larger basin budget accounts subsidize the indirect costs of smaller basin budget accounts due to their larger balances of cash on hand. The current methodology perpetuates the imbalances of the basin budget accounts because when indirect costs are under-allocated in the current year, NDWR under-charges those basin water users in the following year. Likewise, when indirect basin costs are over-allocated to basins with a large cash balance, the following year those basin water users will be over-charged. Exhibit V compares the actual cost allocation for fiscal year 2022 using cash balances to the recommended cost allocation that uses direct expenses as the basis for the allocation.

### Exhibit V

#### Comparison of Indirect Cost Allocation Methodologies in FY 2022

Basin Budget Account	Actual Expenses			Recommended Indirect Cost Allocation Using Direct Expenses				Over (Under) Allocation in Dollars	Over (Under) Allocation in %
	Direct Expenses	Actual Indirect Cost Allocation	Percent of Indirect Cost Allocation	Direct Expenses	Indirect Cost Allocation	Percent of Indirect Cost Allocation			
4211	\$ 660,070	\$ 916,577	62%	\$ 660,070	\$ 1,020,414	69%	\$ (103,837)	(7%)	
4503	\$ 51,733	\$ 126,897	8%	\$ 51,733	\$ 79,975	5%	\$ 46,922	3%	
4504	\$ 64,937	\$ 233,221	16%	\$ 64,937	\$ 100,388	7%	\$ 132,834	9%	
4505	\$ 156,755	\$ 137,199	9%	\$ 156,755	\$ 242,331	16%	\$ (105,131)	(7%)	
4506	\$ 25,520	\$ 68,664	5%	\$ 25,520	\$ 39,451	3%	\$ 29,213	2%	
Total:	\$ 959,014	\$ 1,482,558	100%	\$ 959,014	\$ 1,482,558	100%			

Source: DAWN.

Exhibit V shows that if the indirect cost allocation had been calculated using direct expenses as the basis instead of cash balances, three basin budget accounts would pay less for indirect costs. The exhibit also shows the cost allocations to the two other basin budget accounts (4211 and 4505) were understated. Using the recommended methodology, these two basin budget accounts would pay more for indirect costs. The three basin budget accounts that were overallocated effectively subsidized the indirect expenses of the other two basin budget accounts. Using a methodology that equitably allocates indirect costs will increase future water assessments in some water basins and decrease water assessments for others.

### Best Practices Require Costs to be Matched to Funding Sources

Accounting best practices require costs to be matched to funding sources. Cost allocation is defined as the process of charging a cost or a group of costs, such as indirect costs, to the funding sources, such as basin budget accounts.<sup>2</sup> Direct costs are associated directly to a specific project while indirect costs are costs that are incurred for multiple projects or that are “shared costs.”

<sup>2</sup> <https://finance.uw.edu/pafc/cost-allocation>

Accounting best practices require cost allocations to be both reasonable and consistently applied; costs cannot be allocated to a funding source just because there are more available funds.<sup>3</sup> Best practices also require the cost allocation methodology to distribute indirect costs fairly and accurately to the accounts that receive the benefit.<sup>4</sup>

### Accurate Allocations Are Necessary to Ensure Appropriate Basin Assessments

Accurately allocating indirect costs is necessary to ensure the following year's water assessments are proportionate. Water assessments are calculated using the cost data from prior periods as the base. If the allocation incurred in prior periods is inaccurately calculated, then future water assessments will be inaccurate. The misallocated indirect costs impact fee equity between water basins because misallocations are ultimately paid by water users.

Using cash balances as the basis for allocating indirect costs does not accurately reflect the true costs to manage basins. Cash balances can be manipulated and influenced by a variety of factors, such as: the timing of expenditure payments; the timing of revenue collections; cash transfers to other budget accounts; and prior period adjustments. Therefore, it is not an accepted basis for cost allocation. Cash balances reflect only the current cash on hand, and do not take into consideration costs incurred but not yet paid. Cash balances can fluctuate significantly from period to period, and the fluctuation may not be related to basin operations.

### Allocating Costs Based on Cash Balances Impacts Water Assessment Fees

Allocating costs based on cash balances has resulted in water users in some basins paying costs that are not attributable to their water basin through higher water assessments. Incorrect cost allocations impact the accuracy of the water assessments and ultimately impact the water users who pay for those assessments. Allocating indirect costs based on the basin budget accounts' percentage of direct expenses to total expenses will more accurately assign NDWR's indirect costs to the basin budget accounts that received the benefit. The direct expenses recorded in the respective basin budget accounts are directly associated with the operation of that basin, which provides a more accurate measure of the resources used. An accurate cost allocation will provide NDWR with precise data and insight into basin financial activities and allow leadership to make informed management decisions.

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<sup>3</sup> <https://www.rcac.org/tools/understanding-cost-allocation-and-indirect-cost-rates/>

<sup>4</sup> <https://mrsc.org/explore-topics/finance/accounting-and-internal-controls/cost-allocation#overview>

## ***Conclusion***

Basin budget accounts with larger cash balances arbitrarily pay for a greater proportion of indirect costs that ought to be equitably shared by basins with smaller balances. Larger basin budget accounts effectively subsidize the indirect costs of smaller basin budget accounts. The current indirect cost allocation methodology perpetuates the imbalances of basin budget accounts because misallocated costs in the current year impact water assessment fees charged in the following year. Accurately allocating indirect costs is necessary to ensure the following year's water assessments are equitable for all water users. Allocating indirect costs based on the basin budget accounts' percentage of direct costs to total costs will more accurately assign indirect costs to the basin budget accounts. Ensuring indirect water management costs are proportionately allocated to those who benefit from the water management services will conform to accounting best practices and enhance water assessment equitability for Nevadans.

## ***Recommendation***

2. Develop an equitable basin cost allocation methodology consistent with accounting best practices.

## Appendix A

### Scope and Methodology, Background, Acknowledgements

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#### Scope and Methodology

We began the audit in January 2023. In the course of our work, we interviewed members of management and fiscal staff from the Department of Conservation and Natural Resources, Division of Water Resources (NDWR) and the Department of Taxation (Taxation) to discuss processes inherent to management and accounting of the water resources in Nevada. We reviewed NDWR records and researched legislative history, Taxation guidance letters, applicable Nevada Revised Statutes, Nevada Administrative Code, State Administrative Manual, governmental generally accepted accounting principles, and other state and federal guidelines. We concluded fieldwork in March 2023.

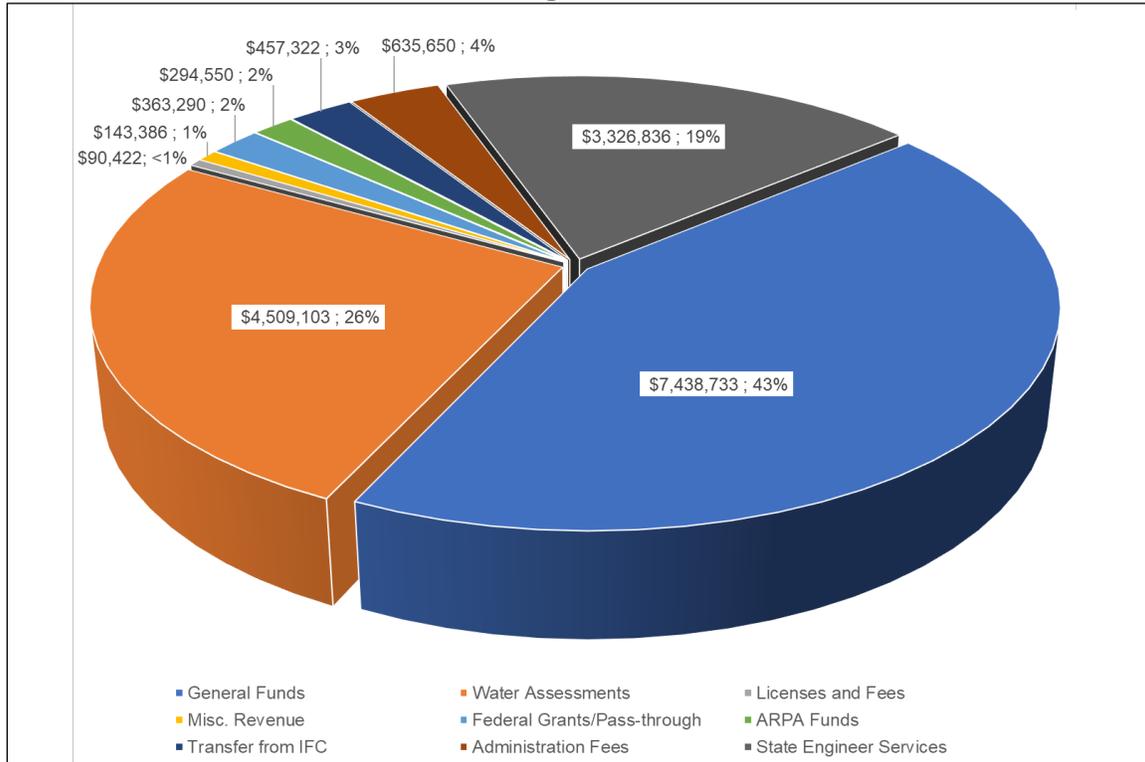
We conducted our audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

#### Background

The Department of Conservation and Natural Resources (department), Division of Water Resources (NDWR) is one of eight divisions under the department. NDWR manages Nevada's water resources and is responsible for quantifying existing water rights, monitoring water use, distributing water in accordance with court decrees, reviewing water availability for new development, reviewing the construction and operation of dams, appropriating geothermal water, licensing and regulating well drillers and water right surveyors, reviewing flood control projects, monitoring water resource data and records, and providing technical assistance to the public and government agencies. Exhibit VI shows NDWR's fiscal year 2023 funding sources.

**Exhibit VI**

**NDWR Funding Sources FY 2023**



Source: DAWN

**Acknowledgments**

We express appreciation to the Department of Conservation and Natural Resources, Division of Water Resources management and staff, the Governor’s Finance Office, Budget Division, and the Department of Taxation for their cooperation and assistance throughout the audit.

Contributors to this report included:

Craig Stevenson  
Executive Branch Audit Manager

Ruby Camposano, CPA  
Executive Branch Auditor

# Appendix B

## Department of Conservation and Natural Resources Division of Water Resources Response and Implementation Plan



Nevada Division of  
**WATER RESOURCES**

**STATE OF NEVADA**  
Department of Conservation and Natural Resources  
Joe Lombardo, Governor  
James A. Settelmeyer, Director  
Adam Sullivan, P.E., State Engineer

June 20, 2023

Warren Lowman, Administrator  
Governor's Finance Office  
Division of Internal Audits  
209 East Musser Street, Room 200  
Carson City, Nevada 89701

Re: DIA Report No. 23-03

Dear Mr. Lowman:

Please accept this letter as the Nevada Division of Water Resources (NDWR) response to the draft Audit Report sent by email on June 7, 2023 (hereafter "DIA Report No. 23-03" or Report). This letter addresses each of the two findings identified in the Report.

The first finding recommended that the state reinstate the former water assessment methodology for municipal water users. That former method, for assessments in designated areas where groundwater is not predominantly used for agricultural purposes, was scaled by assessed property value. The current method divides assessments equally for all taxable parcels, which is based on a recommendation from the Nevada Department of Taxation. To change back to the former method requires cooperation with the Department of Taxation regarding their previous guidance to NDWR, as well as the Counties who have some discretion on levying and collecting assessments.

The second finding recommended that NDWR develop an equitable basin cost allocation methodology consistent with accounting best practices. This will ensure appropriate basin assessments that are proportionally allocated to those who benefit from water management services.

Consistent with these recommendations, NDWR anticipates proceeding with the following:

1. Pursuant to the guidelines in the latest guidance letter from the Department of Taxation, NDWR will request initial feedback from the counties in a letter to be sent to the counties by September 1, 2023. This feedback will then be utilized to work with the Department of Taxation to update the guidance letter as needed.
2. NDWR will update the cost allocation methodology to be consistent with the recommendations provided in the audit findings. The goal of the Division is to have this effective for fiscal year 2024.

Warren Lowman  
June 20, 2023  
Page 2

The findings of the Report are appreciated, and NDWR fully intends to proceed with the recommendations as outlined above. NDWR will continue to work with the Governor's Finance Office and its Divisions to effectively and efficiently administer its responsibilities.

Sincerely,



Adam Sullivan, P.E.  
State Engineer

AS/lr  
cc: James Settelmeyer, Director, NDCNR, E-mail

## Appendix C

### Timetable for Implementing Audit Recommendations

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In consultation with the Department of Conservation and Natural Resources, Division of Water Resources (NDWR), the Division of Internal Audits categorized the recommendations contained within this report into two separate implementation time frames (i.e., *Category 1* – less than six months; *Category 2* – more than six months). NDWR should begin taking steps to implement all recommendations as soon as possible. The target completion dates are incorporated from Appendix B.

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#### **Category 2: Recommendations with an anticipated implementation period exceeding six months.**

<u>Recommendation</u>	<u>Time Frame</u>
1. Reinstate the former water assessment methodology for municipal water users. (page 2)	June 2024
2. Develop an equitable basin cost allocation methodology consistent with accounting best practices. (page 11)	June 2024

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The Division of Internal Audits shall evaluate the action taken by NDWR concerning the report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the Executive Branch Audit Committee and NDWR.