

MEMORANDUM

TO: Audit Committee Members
Matthew Dent, Sara Schmitz, and Tim Callicrate

FROM: Sara Schmitz
Trustee and Audit Committee Member

SUBJECT: Review, discuss, and possibly approve revising Board Policy 15.1.0 to incorporate the Audit Committee Charter Document.

DATE: February 28, 2020

I. RECOMMENDATION

Review, discuss, and possibly approve the Incline Village Audit Committee Charter which will then be incorporated into Policy 15.1.0 for approval by the Board of Trustees at a future meeting.

AUDIT COMMITTEE CHARTER

Purpose

The primary function of the Audit Committee is to assist the Board of Trustees in fulfilling its policy requirements in accordance with Washoe County Code by providing oversight over the District's financial statements, the systems of internal controls, the internal audit plans and reports, and the independent external auditor's assessment of financial statements. The Audit Committee is also to provide open communications between the Board of Trustees, the General Manager, Internal Audit, and the independent external auditors.

Scope

The Audit Committee shall provide oversight over the financial reporting process by being informed of all significant financial reporting matters, by reviewing the annual financial statement and disclosures with management and the independent external auditors on a timely basis, by reviewing the management report of findings and recommendations with management and the auditors, and by reviewing the performance of the independent external auditor on an annual basis.

The Audit Committee shall provide oversight over internal controls by assuring that systems of internal controls are being established by management and these systems are being reviewed on a regular and systematic basis for functionality and effectiveness by the Internal Auditor and by independent external auditors.

The Audit Committee shall specify the purpose, authority, and responsibility of the Internal Auditor in accordance with Washoe County Code. The Internal Auditor shall maintain independence, objectivity, professional proficiency, integrity, due professional care, and diligence in the performance of these responsibilities.

The Audit Committee shall review the work of the Internal Auditor by understanding how internal audits are conducted; by reviewing and approving the risk assessment and annual work plan of the Internal Auditor; by reviewing all audit reports; and by reviewing the annual report of audits completed, significant findings, and status of corrective actions.

Organization

Members of the Audit Committee shall be appointed by the Board of Trustees.

Audit Committee members shall be independent. They shall not accept any consulting, advisory, or other compensatory fee from the District and shall not be an affiliated person with the District or any subsidiary thereof (applicable to at-large members only).

The Audit Committee shall consist of an odd number of voting members with at least three (3) voting members and **one advisory member** (non-voting).

- Voting Member One: shall be appointed from the Board of Trustees with a one-year term.
 - An alternate member from the Board may also be appointed.
- All Other Voting Members: shall be appointed from at-large with appropriate expertise with staggering two-year terms.
 - For the first appointment, one member will serve a one-year term and the second will serve a two-year term.
 - Each subsequent appointment will serve two-year terms.
- Non-Voting Member: shall be the General Manager, or designee, to provide advice as needed.
- The **Internal Auditor** will provide staff assistance to the Audit Committee.

At least one member of the Audit Committee should be a financial expert with understanding and experience in generally accepted accounting principles, financial statements, internal accounting controls, auditing of financial statements, and audit committee functions.

One member of the Audit Committee shall be appointed by the Committee to be the Chair. With the inclusion of the Chair, it will be the responsibility of the **Internal Auditor** to schedule all meetings of the Committee and to provide the Committee members with a written agenda for each meeting.

The **Internal Auditor** will be responsible for ensuring the Audit Committee members receive appropriate and necessary briefings and training relative to internal controls, preparation of financial reports, internal audit processes, governmental regulations, and other pertinent information relative to this appointment.

The Audit Committee may ask members of management or others to attend the meetings and provide pertinent information as necessary.

The voting committee members are limited to two terms with the possibility of extending in the event there are no interested and qualified applicants.

Responsibility

The members of the Audit Committee shall be responsible for the following:

1. Meet at least four times a year or more frequently as circumstances require.
2. Periodically review the District's code of conduct that promotes honest and ethical conduct; full, fair, accurate, timely, and understandable disclosure in periodic

reports; and compliance with applicable governmental rules and regulations to ensure it is adequate and up-to-date.

3. Evaluate managements' identification of fraud risks, implementation of anti-fraud measures and provide the tone at the top that fraud will not be accepted in any form.
4. Review procedures for the receipt, retention, and treatment of complaints received by the District regarding accounting, internal accounting controls, or auditing matters and any confidential, anonymous submissions by employees of the District regarding fraud and/or questionable accounting or auditing practices.
 - Review any complaints that might have been received, their current status, and resolution, if one has been reached.
 - Ensure proper steps to investigate and resolve complaints are timely
5. Conduct an annual meeting with the independent auditors, the General Manager, the Internal Auditor, the Finance Director, Comptroller, general counsel and anyone else as desired by the Committee.
 - Inquire about significant risks or exposures facing the District. Assess the steps management has taken or proposes to take to minimize such risk and periodically review compliance with such steps.
 - Inquire about critical estimates of revenues and expenditures.
 - Inquire about off-balance sheet transactions, if any.
 - Review the policies and procedures with respect to executive expense and travel accounts with management. Consider the review of these areas by the **Internal Auditor** or the independent auditors.
 - Review with management and general counsel any legal and regulatory matters that may have a material impact on the financial statements and related **District's compliance policies**.
6. Participate in the selection, engagement, and dismissal of independent external auditors or auditing firms doing work for the District.
 - Ascertain that the Request for Proposal for the independent audit firm retained by the District for the annual financial audit is no less than every five fiscal years with those directly supervising audit staff rotating at least every two years and audit partners rotating at least every five years.
 - Consider, with management, the rationale for employing audit firms other than the principal independent auditors.
7. Review the audited annual financial statements including the Comprehensive Annual Financial Report with the General Manager, Finance Director, Comptroller, and the independent external auditor.

- Review the Management Letter of findings and recommendations and any schedule of unadjusted differences provided by the independent external auditors relative to the annual audit of the District's financial statements with the General Manager and the independent external auditors.
 - Review the independent auditors' judgments about the quality, not just the acceptability, of the company's accounting principles as applied in its financial reporting.
 - Any significant changes required in the independent auditor's audit plan.
 - Any serious difficulties or disputes with management encountered during the audit.
 - Review all matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, *Communication with Audit Committees*) related to the conduct of the audit.
 - Review the adequacy of the District's internal controls including computerized information system controls and security.
 - Review with management and the independent auditor, the effect of any regulatory and accounting initiatives. Also review all critical accounting policies and practices used by the District.
 - Review all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the District, the ramifications of each alternative, and the treatment preferred by the District.
 - Ensure that the General Manager and the Director of Finance certify that financial reports are accurate and not misleading; and internal controls are sufficient and effective.
 - Review interim financial reports with the General Manager and the financial staff to assure fair and accurate reporting.
8. Review the risk analysis and work plans of the **Internal Auditor** including the three-year schedule of audits to be submitted to the Board of Trustees.
- Review with the Internal Auditor and the Director of Finance the audit scope and plan of the Internal Auditor.
 - Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.
9. Evaluate the internal audit program and independent external audit program annually based on the annual report of audits performed, significant findings, recommendations, and implementation of corrective actions prior to submission of the annual report to the Board of Trustees and on any other observations and reports regarding the conduct of audits of District functions.

- Review all reports of audits, including responses by management (including implementation plans and timetable to correct weaknesses) prior to submission to the Board of Trustees.
 - Any difficulties the audit teams encountered in the course of their audits including any restrictions on the scope of their work or access to required information.
 - Any changes required in the scope of their audits.
 - Internal Audit's compliance with the Institute of Internal Auditors' (IIA) Standards for the Professional Practice of Internal Auditing.
10. Report Committee actions to the Board of Trustees with recommendations as deemed appropriate.
11. Hire outside consultants as necessary upon the request of the Internal Auditor and subsequent approval of the Board of Trustees.
12. Review the Audit Committee Charter periodically and submit changes recommended by the General Manager to the Board of Trustees for approval.



Accounting, Auditing, and Financial Reporting Audit Committee Policy 15.1.0

The Incline Village General Improvement District is committed to be proactive, informed, and providing the highest form of financial accountability to its parcel owners. Achieving this goal requires clear rules and procedures for making decisions and their impact on financial results. As required by Nevada Revised Statute (NRS) 354.624, each local government shall provide for an annual independent audit of all of its financial statements.

POLICY: Each year, the Board of Trustees may establish the need for an Audit Committee and appoint no less than three members to such committee. Members of the Committee shall remain in place until successors are appointed. Members of the Audit Committee should be current Board members. As a general rule, no one having managerial responsibilities that fall within the scope of the audit should serve as a committee member.

1.0 Independent auditor reports directly to the Audit Committee

The independent auditor reports directly to the Audit Committee. The Audit Committee is expected to maintain free and open communication with the independent auditor and District Staff. This communication may include periodic executive sessions with each of these parties. The independent auditor should not engage in any work that will result in billing a fee, unless authorized by the Audit Committee. This includes response to items brought forward by any internal or external source. This does not preclude the work they must perform to meet their professional responsibility.

2.0 Scope of Audit Committee's authority and responsibilities

The Audit Committee at a minimum shall have the following authority and responsibilities:

- 2.1 To select, evaluate and, if necessary, replace the District's independent auditor, and to approve all audit engagement fees and terms, subject to Board of Trustees approval.

Adopted November 15, 2017



**Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0**

- 2.2 To review, with management and the auditors, the District's annual auditor's planning, process and engagement decisions.
- 2.3 To review procedures for the receipt, retention, and treatment of complaints received by the District regarding accounting, internal accounting controls, auditing matters, or suspected fraud. Review any submissions that have been received, monitor their current status, and the document handling or disposition.
- 2.4 To review confidential and/or anonymous submission by the District's employees of concerns regarding questionable accounting or auditing matters, or suspected fraud that cannot be handled by other appropriate levels of management.
- 2.5 The Audit Committee must meet annually to consider the appointment of the District's Auditor, receive the Comprehensive Annual Audit Report and related communications. Also, if necessary to consider circumstances that arise beyond the scope of the Audit Engagement letter that could result in additional fees, and otherwise as determined the Audit Committee Chair. Meetings may be combined with regularly scheduled Board of Trustees meetings, or may be held more frequently as circumstances may require. The Audit Committee may ask members of management or others to attend the meetings and provide pertinent information as necessary.
- 2.6 To submit a written annual Audit Committee Report to the District's Board of Trustees in conjunction with the presentation of the annual audit.
- 2.7 To review and reassess, the adequacy of the Audit Committee responsibilities and recommend any proposed changes to the Board of Trustees for approval.
- 2.8 To appoint a Chair for the Audit Committee who will act as the primary contact with the independent auditor and District staff.

Adopted November 15, 2017



**Accounting, Auditing, and Financial Reporting
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- 2.9 All members of the Audit Committee should possess or obtain a basic understanding of governmental financial reporting and auditing.
- 2.10 The Audit Committee will keep adequate minutes of its meetings and will report on its actions and activities at the next regular meeting of the District's Board of Trustees. Audit Committee members will be furnished with copies of the minutes of each Committee meeting.
- 2.11 The Audit Committee is governed by the same open meeting laws NRS 241 as long as three current District Board of Trustees members are on the Audit Committee and in attendance at the Audit Committee meetings.