

MEMORANDUM

TO: Audit Committee

FROM: Ray Tulloch
Audit Committee Chair

SUBJECT: Update on progress of implementation of Moss Adams recommendations **and** Audit Committee recommendations on improvements to future Comprehensive Annual Financial Reports as per Board of Trustees motion on General Business Item K.2. from the February 10, 2021 meeting

DATE: October 26, 2021

I. RECOMMENDATION

The Audit Committee receive an update from the Director of Finance on progress of implementation of Moss Adams recommendations and Audit Committee recommendations as per Board of Trustees motion on General Business Item K.2. from the February 10, 2021 meeting. Review and discuss outstanding issues based on update.

II. BACKGROUND

In Fiscal Year 2020/2021, Moss Adams reviewed and provided recommendations to the Audit Committee with regard to several issues that had been raised with regard to financial reporting. Some of these recommendations were incorporated in the 2020 CAFR and others were to be applied to the 2021 CAFR. The Audit Committee has requested an update on this from Finance Director Navazio.

III ACTIONS

To be agreed based on review and discussion.

IV. FINANCIAL IMPACT

There is no financial impact.

Attachment:

Navazio update/response memorandum dated 10/20/2021

Incline Village General Improvement District
Classification of accounting/reporting issues raised

	Suggested for expanded SOW	To be addressed in future CAFRs with the District's future audit firm	Issue is immaterial to the financial statements	Addressed in MA consulting report	Comments	Management Comments - FY 2020/21 CAFR Preparation
1 Improper switch from enterprise funds to use of special revenue funds for Community Services and Beach				X	Our recommendation is to switch back to enterprise fund reporting, and we understand the District is planning to make this change.	Does not apply to 2020/21 financial statements. (Transition back to Enterprise Funds for Community Services and Beach funds for FY2021/22 Budget)
2 Improper capitalization of effluent pipe repairs and condition assessments		X			We understand the projects in question have some elements of extension of useful life and likely some elements that would not meet capitalization criteria. We understand management already has plans to perform a more detailed analysis, and we believe the project will require more evaluation and judgement. Further, the evaluation necessary will be enhanced by development of more robust capitalization policies yet to be developed as we recommended in our report. We believe this to be better addressed in the District's work with its external auditor and once the dollar amount of any necessary adjustments is determined the reporting implications can be determined at that time.	Under review by District's external auditor; recommended expensing of assets previously capitalized are being done in accordance to auditor recommendations.
3 Improper capitalization of feasibility studies and master plans				X	We understand management has already identified amounts capitalized incorrectly and has made adjustments to the 19/20 financial statements.	Substantially addressed in 19/20 financials; additional items being expensed in 20/21 based on review by external auditor.
4 Improper use of punch card contra-revenue accounting				X	This issue was addressed in our report with a recommendation to cease the use of punch card accounting. We understand management is already making plans to cease use of this methodology.	Partially Implemented; Punch Card contra-revenues are no longer adjusted based on ration of Recreation / Beach Facility Fee; Punch card utilization was changed in 20/21 to remain within Community Services or Beach funds, based on venue.
5 Improper allocation of administrative and overhead costs from the GF		X		X	This issue was addressed in our report. Changes were noted as necessary in the financial statement for both reimbursements between funds and how internal service fund activity is reported in the government-wide financial statements that can be revised in future CAFRs since neither issue has a bearing on total net position or fund balance of any individual fund.	Issue addressed in 19/20 financials
6 Incorrect revenue recognition for utility base rate charges in periods prior to delivery of service		X	X		The amount in question is immaterial to the utility fund financial statements. This issue would best be discussed with the District's external audit firm with any revisions made in future CAFRs.	Under review by District's external auditor.
7 Indadequate disclosure of construction commitments and lack of classifying related amounts of fund balance as committed for capital projects		X			There is adequate accounting guidance for disclosure requirements of construction and other commitments as well as classifying fund balance among the different levels of constraints. This can be worked out with the District's external audit firm with any revisions made in future CAFRs.	Note to Financial Statement is being updated for 20/21 to reflect complete list of (material) construction contract commitments.
8 Improper classification/reporting of Facility Fees and GF admin and overhead charges in the Statement of Activities		X			This has to do with the placement of Facility Fee revenues in the Statement of Activities, and the 'netting' vs. 'gross' reporting of expenditures and reimbursement revenues within the Statement of Revenues and Expenditures for the General Fund, and does not impact net position or fund balances of individual funds. Therefore, this can best be addressed in future CAFRs.	Under review by District's external auditor. (See document request list)

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9 Potential for error in the period of recognition of a grant obtained for the Incline Park ball fields	X			We understand a grant was obtained and as of 6/30/20, was completely or nearly completely received and expended. We understand the budget contained estimated resources and expenditures in the year(s) cash was expected to be received and expenditures made. If the grant is an 'expenditure-driven' grant, it is likely the timing of revenue recognition in past CAFRs have been correct. If the grant is not an expenditure-driven grant - there is a chance revenue should have been recognized sooner and in the year all eligibility requirements were met securing the District's right to the grant resources. Given this is a timing issue in the year(s) grant revenues are to be recognized, we would not recommend restating prior year financial statements for this item absent a request by the grantor, federal or state regulator, or some other reason for which the District would deem the benefit of the restatement effort to be greater than people and financial resources required.	Under review by District's external auditor. (See document request list)
10 Improper capitalization of \$150,751 of repairs to Mountain Golf Course Clubhouse addressing fire damage	X	X		An evaluation of all costs incurred in the year of the fire and in future years, incurred specifically to address the fire damage and bring the facility back to its condition prior to the fire, should have been compared to any insurance proceeds received with a resulting gain or loss recognized in the year of the fire. The amount noted is immaterial to the Community Service financial statements and any expenditures incurred for the renovation of the Clubhouse can best be evaluated annually as they occur and discussed with the District's external auditor.	Under review by District's external auditor.
11 Indadequate disclosure of lease commitments with US Dept of Agriculture and Parasol Foundation	X			Current accounting standards issued require footnote disclosure of significant lease commitments, and GASB 87 which can be implemented by the District at any time now and no later than its fiscal year beginning July 1, 2021 will significantly change how leases are reported within the financial statements. We suggest the evaluation of the significance of these leases and related disclosures and the implementation of GASB 87 be discussed with the District's external audit firm and any revisions to the accounting and disclosures be made in future CAFRs.	Under review by District's external auditor. (See document request list)

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12	Inaccurate disclosure of who has authority to create assigned fund balance	X		Any remaining positive fund balance amounts in governmental funds outside of the General Fund are appropriately reported as 'assigned' as specified in GASB 54. In essence, the fact the Board is accounting for certain resources in governmental funds, GASB deems the resource to be 'assigned' if it is not otherwise non-spendable, restricted, or committed - by definition. Local governments can establish who has the authority to establish assigned resources in the General Fund and it is common for that authority to be given to certain members of management. It is a best practice to memorialize who has the authority and what action and documentation is required to establish an assignment. This is something that can be addressed in a review and enhancements to Board policies in the future to memorialize the Board's decision on who can create an assignment and how, and the reporting in the financial statements can be discussed with the District's external auditor and any revisions made to future CAFRs.	
13	Lack of classification of certain amounts as 'fund balance committed for capital projects' for commitments on executed construction contracts	X		The mere fact the Board and management have remaining commitments for capital projects at any year-end does not result in a requirement for a portion of fund balance in governmental funds to be reported as 'restricted' or 'committed', or net position in any enterprise fund to be reported as 'restricted'. Such a classification would only be required for an externally created restriction on a resource for any fund or an internally created commitment by the Board for governmental funds related to unspent resources at year-end. We suggest this issue is best addressed with the District's external auditor and if any revisions are found to be necessary, that they are made to future CAFRs.	Under review by District's external auditor. (See document request list)
14	Inconsistent references to note titles	X		We find it to be a best practice to use consistent titles throughout the financial statements. This is something best addressed in future CAFRs.	Notes reviewed for consistency (ongoing).
15	Incorrect reporting in the notes of 'segment information' for Community Services and Beach funds that is not applicable only to enterprise funds	X		Segment information is only required in certain circumstances for enterprise funds that include multiple activities. It is not appropriate for governmental funds. This is something that can be revised in future CAFRs.	Under review - applies to Supplemental information

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FYE 6/30/19 CAFR under-reporting of Facility Fees and Beach Fees the Board intended for capital projects and debt	16	X			To the extent the Board is in agreement with the findings in our report that Facility Fees in general and portions assessed for capital projects and debt service specifically meet the criteria for 'committed' resources, to the extent any Facility Fees committed to capital projects or debt services remain unspent at the end of the year, the calculated amount should be reported as 'committed for capital projects' or 'committed for debt service' within the governmental funds to which they relate. In discussing this with management and review of prior CAFRs, it appeared greater amounts have been spent on capital projects than the allocation of the Facility Fees to capital projects. So it is not clear if any change would need to be made to the classifications of ending fund balance at this time. Since this relates to a reclassification of existing fund balance amounts, if a revision is necessary, this could be addressed in future CAFRs.	Facility Fee revenues are budgeted and reported within Special Revenue, Capital and Debt funds in FY20/21 financials.
Improper reporting of fund balance classifications in Community Services and Beach funds between committed, assigned, and unassigned	17	X			This appears to be the same issue noted in #12 and #16 above which we suggest can be addressed in future CAFRs.	Under review by District's external auditor. (See document request list)
Inadequate capital asset policy disclosure in the notes to the financial statements	18	X			This is a disclosure issue we believe can be addressed with the District's external auditor and any revisions made in future CAFRs.	Note disclosure to be updated
Lack of disclosure of minimum fund balance policies	19	X			This is a disclosure issue we believe can be addressed with the District's external auditor and any revisions made in future CAFRs.	Note disclosure to be updated
\$198,135 of proceeds from land sales between 2016 to 2019 were innappropriately recorded in Community Services special revenue fund instead of the related capital project fund.	20		X		The amount involved is immaterial to the financial statements.	No action needed.
Missallocation of Facilities Fees the Board allocated to Capital Projects and Debt Service of Community Services and Beach to the CS and Beach special revenue funds.	21	X			This appears to be the same issue noted in #16 above.	
Inappropriate classification of effluent pipe special assessments in the Statement of Revenues and Expenses as operating revenues	22	X			The issue noted here addresses the location/classification of the special assessment amounts for the effluent pipe replacement project within the Statement of Revenues and Expenses for the Utility fund. The proper classification is dependent on how the special assessment is calculated, how it is assessed, and how it relates to what was represented to the community at the time of its assessment. Given it does not impact the total net position of the Utility fund, we suggest this can be addressed with the District's external auditor in future CAFRs.	Facility Fee revenues are budgeted and reported within Special Revenue, Capital and Debt funds in FY20/21 financials.

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23	Interest earned on unspent effluent pipe replacement special assessments should be limited in use to the effluent pipe replacement project to comply with Board Policy 13.1.0 and Board Practice 13.2.0	X	X		The amount involved is immaterial to the Utility fund. That said, the amount could be significant and involves the application of a written Board practice. We believe a calculation can easily be performed of interest deemed to be associated with average actual unspent special assessments annually and cumulatively and a balance of unspent special assessment amounts plus unspent interest earnings can be disclosed in the footnotes for Board designations in future CAFRs.	Note has been updated to include interest earnings applied to Effluent Export Pipeline set-aside
24	\$119,497 of costs incurred to assess underground piping, potential leaks, and other pool related issues were capitalized that should have been expensed		X		Amounts are immaterial fo the financial statements.	No action needed.