

TO: Audit Committee  
FROM: Audit Committee Chairman Ray Tulloch  
DATE: 16 June 2022

Review, discuss, and modify as necessary the draft of the Audit Committee's Annual report to the Board of Trustees

**MEMORANDUM**

**I. RECOMMENDATION**

That the Audit Committee provide the Board with an annual report of the actions taken by the Committee to fulfil their duties and responsibilities required under Policy 15.1.0. This report will be prepared to cover the fiscal year. The Audit Committee should review, discuss and modify the draft report attached prior to presentation to the Board.

**II. BACKGROUND AND ANALYSIS**

Under Policy 15.1.0, Section 2.9, the Audit Committee is to submit an annual report to the Board of Trustees assessing the results of its fulfillment of its duties and responsibilities. The annual report be based on the time period between each fiscal year. The Audit Committee held 13 meetings between July 13 2021 and June 30, 2022. Two of these were single issue special meetings that were made necessary to meet urgent timelines for submissions. A summary of items discussed and resolved at each meeting is on Exhibit B.

It is now appropriate for the Audit Committee to review our results over the past year and provide a short executive summary of achievements and actions fulfilling the duties and responsibilities required during the past 12 months.

## Annual Audit Committee Report for 2021-22

During the 2021-22 fiscal year the Audit Committee held 13 meetings Two of these were single issue special meetings that were made necessary to meet urgent timelines for submissions. A summary of items discussed and resolved at each meeting is on Exhibit A.

It is unfortunate that for much of the year the Audit Committee was required to operate with less than its full complement of Committee members. Initially there was only one (of 2) Trustee on the Board as Trustee Dent had stepped down as of 30 June 2021 and the Board was unable to appoint a replacement. The Audit Committee wishes to thank Mr. Dent for stepping back up to fill the position on a temporary basis from September 2021. In addition At-Large member Mr. Aaron resigned from the Committee as of July 19 due to business pressures. Although the Board interviewed candidates to replace Mr. Aaron they declined to appoint a replacement. As a result, for the majority of the year the Committee operated with only 4 (four) rather than 5 (five) members which increased the workload on these members given that Committee members were responsible for personally preparing agenda memos for the Committee.

In the initial 2020-21 year of operation of the Committee, some concerns were raised that at times the Committee was perceived to be operating outside its defined scope. As a result every effort was made to ensure the involvement and purview of the Committee was focused on its responsibility to provide independent review, oversight and feedback on:

1. Financial reporting
2. Internal controls
3. The independent audit of the basic financial statements
4. The ACFR

It is the considered view of the Committee that, during 2021-22, it has indeed operated within these parameters.

The Committee, recognizing the lessons learned from the initial 2020-21 year, as well as responding to concerns raised by some Board members, spent significant time during the first half of the year making recommendations for changes in Policy 15.1.0. This proved to be an extended iterative process before the Board finally reached agreement on changes at their February 3, 2022 meeting.

During the year there were instances where the Board declined to accept considered and researched recommendations from the Audit Committee. Most notable concerned the Annual Comprehensive Financial Report (ACFR) where the Audit Committee was presented with the final version, with changes that had not been previously discussed, on the same day it was provided to the Board for approval. As a result the Audit Committee had no time to discuss changes and was unable to sign off on the ACFR as presented. The concerns of the Committee were substantively around items being capitalized rather than expensed in compliance with Board policies and practices. As will be understood this unfortunately created some friction between the Board and the

Audit Committee. The Audit Committee does also recognize that it bears some responsibility in this area as it has identified for future years that it should schedule more frequent updates with the external auditor and IVGID financial staff during the course of the Audit in order that concerns may be addressed at an earlier stage.

However, the Audit Committee has remained consistent and steadfast in operating in accordance with its charter, which also reflects Government Finance Officers Association (GFOA) guidance, as follows:

*“An Audit Committee plays a key role with respect to overseeing the integrity of the District’s annual financial statements (the “ACFR”) by ensuring those responsible for financial management (Management and the Board of Trustees) meet their responsibilities for maintaining an effective system of internal controls over financial reporting. An Audit Committee is a practical means for a governing body to provide much needed independent review and oversight of the District’s financial reporting processes, internal controls, and independent auditors.*

*An Audit Committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an Audit Committee helps to ensure that procedures are in place to objectively assess management’s practices, and that the independent auditors, through their own review, objectively assess the government’s financial reporting practices.”*

The Audit Committee recognizes that this may not always be a popular approach. However it is the unanimous and considered view of the Committee that to operate otherwise or to be influenced by political pressures would be an abrogation of the independence and charter of the Committee. The Audit Committee is not established simply as a rubber stamp but to provide independent and objective oversight of IVGID financial reporting practices, and also leveraging the extensive skills in the community through the at-large members. The Audit Committee fully recognizes that it has a distinctively apolitical and different role from the Board and that, while it can make recommendations to the Board, it is up to the Board to accept or reject these recommendations and to subsequently be responsible for the decisions reached.

During the year the Audit Committee developed, as directed by the Board, a whistleblower policy. This was presented to the Board but no action has been taken.

Another focus of the Committee has been working with staff on development and implementation of appropriate internal controls. This remains a work in progress and has also been further informed by the external audit findings of Material weaknesses and deficiencies which are being addressed through this process. The Committee notes the additional resources brought in by IVGID management to accelerate this work as previously suggested.

During the year there have been recurring discussions between the Committee and finance staff regarding Capitalization policies. The Committee has been consistent in its approach to this in that capitalization should be consistent applied in accordance with Board policies as well as compliance with GAAP and GASB. This supports consistent financial reporting than can be used for accurate year on year comparisons. This is of particular importance for external financial review that will be necessary for the future bonding of the effluent pipeline.

The Committee also notes the approval of the Board, based upon a joint recommendation from Finance staff and the Audit Committee, to expand the scope of the external audit to include additional review of internal controls and capitalization policies. It is our joint view that this will benefit the District and support more consistent and accurate financial reporting.

DRAFT for DISCUSSION

Attachments:

## **EXHIBIT A**

History of Audit Committee Meetings for fiscal year ending June 30, 2022

### **July 13, 2021**

- The Audit Committee Chair outlined expectations for decorum and procedure for the Audit Committee
- The Audit Committee reviewed, discussed and provided recommendations where appropriate on:
  - Whistleblower policy
  - External Auditor performance
  - Annual Audit Committee report to the Board
  - Facilitation of the 2020/21 external audit process including election of a liaison to the Auditor
  - Proposed modifications to Policy 15.1.0

### **August 10, 2021**

- Update to the Audit Committee on work products presented to the Board
  - Whistleblower policy
  - Annual Report from the Audit Committee
- External Auditor, Davis Farr, update to the Audit Committee
- Update presentation on Internal Controls
- The Audit Committee reviewed, discussed and provided recommendations where appropriate on:
  - Proposed modifications to Policy 15.1.0
  - Staff's response on investment income allocation

### **August 17 2021**

- Special additional meeting to finalize 15.1.0 recommendations to Board

### **October 26, 2021**

- Update to the Audit Committee on work products presented to the Board
  - Modifications to Policy 15.1.0
- Update on external audit and review of initial draft of financial statements
- Review of completed Internal Controls updates and prioritized schedule of Internal Control updates to be completed in Fiscal Year 2021/2022
- Update on allocation of Investment Income earned on Cash, Cash Equivalents and Investments for the Governmental Funds ONLY for the Fiscal Year ending June 30

### **November 17, 2021**

- The Audit Committee reviewed and discussed the DRAFT of the District's Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021 and Results of Audit

**December 8, 2021**

- The Audit Committee reviewed and discussed the District's FINAL Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021 and recommended changes

**December 16, 2021**

- The Audit Committee reviewed and discussed the District's FINAL Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021
- The Audit Committee agreed to provide a report to the Board detailing their concerns over inaccuracies in the Annual Comprehensive Financial Report and recommending changes

**February 22, 2022**

- The Audit Committee reviewed and discussed District Management's response to the Audit Committee report to the Board of Trustees on the Annual Comprehensive Financial Report
- The Audit Committee reviewed and discussed status of implementing recommendations made by the Auditor (Davis Farr) in their Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021 as well as implementation of (selected) recommendations from the Audit Committee on the Audit
- The Audit Committee reviewed and discussed actions taken in response to recommendations in the Moss Adams report on policies and practices
- The Audit Committee reviewed and discussed to determine if action was required in response to memos received regarding:
  - Charge off of expenses which have been included in construction in progress
  - Incline Park Facility Renovation, Project#4378L11801, Final disclosure of the close out of the Memorandum of Understanding ("MOU") with Incline-Tahoe Foundation regarding construction of the project
  - Golf Courses Irrigation, Greens, Tees and Bunkers, etc. Expenses rather than Capital Assets
  - Reporting and use of Facility Fees

**April 13, 2022**

- The Audit Committee reviewed and discussed and provided recommendations as appropriate on
  - draft report to Board of Trustees on the Annual Comprehensive Financial Report and Staff response
  - further action if any on the Effluent Pipeline Capital Improvement Project charges to expense for FY 2020 and 2021
  - further action if any on the Golf Courses Irrigation, Greens, Tees, Bunkers and similar items as expenses rather than capital assets

#### **April 21, 2022**

- Special additional meeting to Review, discuss and possibly take action on the Davis Farr draft engagement letter; to include discussion on schedule, reporting, milestones and interim deliverables and to include discussion related to concerns of the Audit Committee and options for expanding annual audit by Davis Farr

#### **May 10, 2022**

- The Audit Committee reviewed, discussed and provided recommendations as appropriate on
  - the Davis Farr draft engagement letter to include review discussion and approval of supplementing FY2021/22 Independent Audit to Include Additional Agreed-Upon Procedures Related to 1) Capitalization of Assets and 2) Purchasing/Contracts options for expanding annual audit by Davis Farr to include review of internal controls as integrated audit
  - further action if any on the Effluent Pipeline Capital Improvement Project charges to expense for FY 2020 and 2021
  - further action is necessary on the Golf Courses Irrigation, Greens, Tees, Bunkers and similar items as expenses rather than capital assets
  - Review, discuss and determine if any further action is necessary on the expensing of net costs which were historically capitalized relating to 3 ongoing projects in the Utility Fund.

#### **June 1, 2022**

- The Audit Committee reviewed, discussed and provided recommendations as appropriate on
  - further action if any on charges to the Water and Sewer Pump Stations capital projects for 2015 to 2021 which were capitalized but should have been expensed
  - further action if any on charges to the Wetlands Effluent Disposal Facility Improvements capital projects for 2015 to 2021 which were capitalized but should have been expensed
  - Management's responses to the Annual Comprehensive Financial Report (ACFR) to identify and confirm for which items the Audit Committee requests additional documentation to be presented for the June 16 Audit Committee meeting
  - further action if any on Note 22 - Prior Period Adjustment - Annual Comprehensive Financial Report as of June 30, 2021 (ACFR)
  - further action if any on Accounting and Reporting of Facility Fees Revenue in the Annual Comprehensive Financial Report (ACFR)
  - Verbal review of annual internal controls schedule and update on revisions to internal controls (Policy 15.1.0, 2.6.1,2)
  - further action if any on implementation of agreed actions identified from 20-21 Audit Report by the Audit Committee

**June 16, 2022**

- The Audit Committee reviewed, discussed and provided recommendations as appropriate on
  - Follow-up explanatory on Management Responses to Audit Committee report on 2020-21 ACFR
  - Wastewater Treatment Plant Improvements
  - Burnt Cedar Disinfection Water Treatment Plant
  - Schedule / work plan for 2021-22 Financial Audit
  - How revenue is treated for play passes and punch cards
  - Annual Audit Committee report to the Board of Trustees as per Policy 15.1.0

DRAFT for DISCUSSION