

## MINUTES

### **AUDIT COMMITTEE MEETING OF APRIL 13, 2022 Incline Village General Improvement District**

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Ray Tulloch on Wednesday, April 13, 2022 at 2:05 p.m. via Zoom.

#### **A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS\***

Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), Matthew Dent (Trustee) and Raymond Tulloch (At-Large Member) (Chair)

On roll call, present were Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), Raymond Tulloch (At-Large Member, Chairman) and Matthew Dent (Trustee).

#### **B. PUBLIC COMMENTS**

Chris Nolet said thank you for the opportunity to comment. My question is primarily directed at our auditors - Davis Farr. How was a clean (i.e. unqualified) report issued on the 2021 ACFR when it was the written, unanimous view of the Audit Committee that the ACFR was NOT fairly presented, in all material respects, in accordance with GAAP and GASB? As a retired CPA and auditor with 40+ years of experience, I am struggling to identify what possible audit evidence was accumulated by our auditors and what judgement was applied in order to render an opinion contrary to the conclusion determined by the Audit Committee, which by the way includes two of the five Board Trustees. Oftentimes public comments like this one do not receive any formal public response. I really hope to hear back from our auditors (possibly through the Audit Committee or District management) by the end of this month. Absent a substantive response, I will likely forward my question to both the California Board of Accountancy and the American Institute of Certified Public Accountants for their evaluation and possible action.

#### **C. APPROVAL OF AGENDA (for possible action)**

Audit Committee At-Large Member Dobler said on Item D.4. – agenda pages 73 – 79, this item should just be removed as this is not the proper attachment. Trustee Schmitz said on Item D.8. – believe this issue has been address by District Legal Counsel and Staff and this isn't going to be an issue going forward and would request that it be removed from agenda. Audit Committee At-Large Member Dobler said it was brought to the Audit Committee almost a year ago, asked and requested to redo the memorandum, meaningless to him that the Board thinks that it has been put to bed. District General Counsel Nelson agreed with Trustee Schmitz' characterization and asked for a vote. Audit Committee Chairman Tulloch said there was a contract without resources. District General Counsel Nelson said that

is not a correct characterization and we have made changes to the template to avoid this situation in the future. Audit Committee At-Large Member Dobler said he would like to hear from Staff. District General Counsel Nelson said we need to get clarification on the item being on the agenda. Trustee Schmitz said she has no problem with allowing the item to remain; Audit Committee Chairman Tulloch said it remains on the agenda as revised. Audit Committee Chairman Tulloch said he is trying to schedule another meeting as the audit engagement letter was removed from the agenda without his approval.

**D. GENERAL BUSINESS ITEMS (for possible action)**

**D.1. Review and discussion of draft report to Board of Trustees on the Annual Comprehensive Financial Report and Staff response**

Audit Committee Chairman Tulloch gave an overview of the submitted materials. Director of Finance Navazio said that the Management response is included in the Board of Trustees packet and is not included in this packet; Director of Finance Navazio then went over Management's response as it was discussed at the last Audit Committee meeting. Audit Committee Chairman Tulloch said he doesn't understand why the draft wasn't brought to the Audit Committee. Director of Finance Navazio said we spent a fair amount of time going through each of the items and following that meeting the Board received the Audit Committee report absent Management's response, Board asked for deferral pending Management's response, they were prepared for the Board, and they are available as they are a public document. We discussed this at the last Audit Committee meeting and the Audit Committee understood Staff was preparing this for the Board meeting therefore he is not sure why this is back on the agenda; the Board asked Staff for their comments and they were provided. Audit Committee Chairman Tulloch said he had a different understanding and it was his understanding and that the courtesy would be to take it to the Audit Committee and if there was a change, the courtesy was to provide it to the Audit Committee first. Director of Finance Navazio said it is essentially the same response. Audit Committee At-Large Member Dobler said as far as Staff is concerned, you see no need to change the financial statements presented to the Board prior to the Audit Committee doing their report and you intend to tell the Board that you are going to make no changes to the ACFR as of June 30, 2021? Director of Finance Navazio said yes, and we have been consistent on it, that as far as Management is concerned the ACFR is complete, final and transmitted to the State of Nevada who have accepted it as final and any conversations further will be related to the next audit. We see no need to

change the 2021 ACFR. Audit Committee Chairman Tulloch said the Audit Committee charter states that the Auditor reports to the Audit Committee. ACFR was agreed to and it was presented to the Board on the same night as it was presented to the Audit Committee. District General Counsel Nelson said he needs to check the agendas but he thinks that is right. Audit Committee Chairman Tulloch said so the ACFR comes to Audit Committee. District General Counsel Nelson said Policy 15.1.0 states the Audit Committee has oversight. Audit Committee At-Large Member Dobler said that the Audit Committee has oversight for the auditor. Audit Committee Chairman Tulloch said obviously it calls into question the independence of the Audit Committee. He appreciates the agreement on some of the recommendations and there is not a lot more that the Audit Committee can do at this point. Audit Committee At-Large Member Dobler said somehow, somehow everyone believes that the auditor is like Moses, if we feel that we produced an ACFR that is incorrect, the Board makes the decision to restate and not the auditor. We have ample evidence that there were certain things that were not done that impacts the financial statements. We have over \$1 million in pre-advancing design that should have been taken care of this year and we aren't going to take care of it but maybe we will have a new Audit Committee and that will be 4 period prior adjustments that this will have gone on. It took Managements look at the capital assets, he does the work, he submits it, it is discarded, and he is basing it on nothing more than facts. Our goal is to have accurate financial statements because we are going to be floating some bonds in the coming years. We are spending our time on getting these financial statements right. Audit Committee Chairman Tulloch said he has concerns with inconsistencies. Trustee Schmitz said she did pull up the Board packet and Management's comments have been substantially changed since our last meeting. The trouble she has is that the Auditor relies on Management's representation, again there is no explanation as to why the inconsistencies that were identified and showing expensed and then capitalized and now being shown as expensed. There is no explanation and this Audit Committee has requested this several times and we haven't received any explanation. This is Management's representation and she doesn't see any explanation as to how that the policy is being interpreted differently and there is no explanation from Management and she finds it deficient. Audit Committee Chairman Tulloch said he would agree with Trustee Schmitz and the \$5,000 limit has been removed and that grouping is acceptable. The Capitalization Policy that was presented in January wasn't presented to the Audit Committee, as a courtesy, and he finds it hard to understand the grouping. Not sure if there is much more we can do, failure to comply with Policy 15.1.0, and would take note of that when reviewing the

engagement letter. Trustee Schmitz said we have spent far too much time without explanation from Management and the whole goal is to work together and to have better financial statements going forward and she does not understand why there is such resistance without understanding from Management; she finds it disappointing and she is disheartened by it. Trustee Dent said Trustee Schmitz mentioned a lot of the same things at the Board meeting and lack of understanding as to why we aren't following Board policies or resistance in following policies. He would echo that disappointment, will rely on Moss Adams to move forward, move forward together, have a reboot, and it is unfortunate that we can't get there. There has been many, many questions that have been answered, before Moss Adams, there were a lot of questions out there. Unfortunate that we aren't moving forward. Audit Committee Chairman Tulloch said he would agree and that we have put in clear definitions and seems to be that there is an ignoring of the Audit Committee which is political and take note of Mr. Nolet's public comment. Our comments have been minuted here, do appreciate items 1 and 6 which he agrees with, and that is some progress. Audit Committee At-Large Member Dobler said that we, as the Audit Committee, did a lot of work to and take the memo and toss it aside is absolutely sickening. Director of Finance Navazio said without regard to the individual comments or recommendations – remind the committee of two things – with 1 or 2 exceptions which were raised prior to the audit and during, there were several topics that were discussed with the auditors. Staff worked hard to work with the Audit Committee, there was draft ACFR, and the one with their opinion is the one that we filed. He understands the addressing of the concerns and were we landed, we took them seriously and when they rendered their opinion, that is their opinion. Audit Committee At-Large Member Dobler said that is nonsense. Trustee Schmitz said it is her understanding that the practice for capitalization had not been provided to the auditor until the ACFR had been turned in and that is a policy decision which is for the Board and the other question, and her recollection, is that some of these were identified after ACFR? Audit Committee Chairman Tulloch said he agreed with Trustee Schmitz. Audit Committee At-Large Member Dobler said on June 9 he brought forward a memo on the pre-design assessments so it wasn't after the fact at all as it was done far in advance of doing the audit.

Trustee Dent left the meeting at 3:23 p.m. and rejoined the meeting at 4:45 p.m.

**D.2. Review, discuss and possibly provide recommendations to the Board of Trustees regarding the further implementation of the Moss Adams recommendations as contained in the Final Report entitled “Evaluation of Certain Accounting and Reporting Matters”, report dated January 14, 2021**

Trustee Schmitz gave an overview of the submitted materials. The Audit Committee had an extensive and varied discussion on the recommendations as presented.

Trustee Schmitz made a motion that the Audit Committee make the following recommendations to the Moss Adams 2 report; as it relates to Item Number 1, the recommended action is to request Staff for the documentation related to central services cost allocations and recommendations for methods of enhancements and to also evaluate where and if internal services funds for a direct billing would be appropriate. Number 2, as it relates to punch card accounting, the recommendation is that there are long term strategies to be proposed on how the future of punch cards are going to be administered and accounted for. Number 3, the recommendation as stated is currently being done however there was a recommendation to further breakdown that number to include operations, capital improvement projects and debt so that it can be tracked by cost center. Number 4, the Audit Committee recommends as written (*report the Facility Fees as non-operating revenue in the statement of revenues and expenses, as non-capital related financing activities section in the statement of cash flows and as program revenue in the statement of activities*) and the actions are for the District General Manager and the Director of Finance to get back to the Audit Committee with the direction that the feel is best suited given the Audit Committee’s recommendation. As it relates to Number 5, it is to refine the language specific to the Capitalization Policy 6.0 and 6.1 for enhanced clarity.

Audit Committee Chairman Tulloch said he would like to add to that – he would like the Capitalization Policy to eliminate the first part of 5.4 and eliminate the term “capital maintenance” which is an oxymoron and capital maintenance was previously referred to as keeping up your assets. This has nothing to do with capital as it is repair and maintenance activities so he would modify 5.4, the third bullet point as repairs and maintenance. Trustee Schmitz asked to counter that and referred to agenda packet page 29 and read the very last paragraph on that page. She does have it on her list that

the Capitalization Policy come back to the Audit Committee but she was trying to keep this to the scope of the Moss Adams recommendations. Audit Committee Chairman Tulloch said that is a good catch and that he should have turned the page; he is good with Trustee Schmitz' summarization.

Audit Committee At-Large Member Dobler seconded the motion. Audit Committee Chairman Tulloch called the question and the motion was passed unanimously.

**D.3. Review, discuss and determine if any further action is necessary on the Effluent Pipeline Capital Improvement Project charges to expense for FY 2020 and 2021**

This item was covered by Item D.1.

**D.4. Review, discuss and determine if any further action is necessary on the Golf Courses Irrigation, Greens, Tees, Bunkers and similar items as expenses rather than capital assets**

This item was postponed.

**D.5. Review, discuss and determine if any further action is necessary on the lack of disclosure of Claims Payable - Note 13 and Restricted Funds - Note 14 in the 2021 Annual Comprehensive Financial Report**

This item was postponed.

**D.6. Review, discuss and determine if any further action is necessary on the expensing net costs which were historically capitalized relating to 3 ongoing projects in the Utility Fund.**

This item was postponed.

**D.7. Review, discuss and determine if any further action is necessary on Note 22 - Prior Period Adjustment - Annual Comprehensive Financial Report as of June 30, 2021 (ACFR)**

This item was postponed.

**D.8. Review, discuss and determine if any further action is necessary on the Burnt Cedar Pool: Non-compliance with NRS 354: Issuing contracts for the Burnt Cedar Pool construction in excess of available resources**

This item was postponed.

**D.9. Review, discuss and possibly update the Audit Committee Long Range calendar**

Audit Committee Chairman Tulloch asked for items; Audit Committee At-Large Member Dobler suggested several items for the long range calendar and Trustee Schmitz suggested several items for the long range calendar. Audit Committee Chairman Tulloch noted all items and said he would provide an updated long range calendar.

**D.10 Review, discuss and determine if any further action is necessary on any correspondence received by Audit Committee**

There was no correspondence received.

**E. MEETING MINUTES (for possible action)**

**E.1. Meeting Minutes of November 17, 2021**

Audit Committee At-Large Member Dobler had one change which was accepted. The minutes were approved as revised.

**E.2. Meeting Minutes of December 8, 2021**

The minutes were approved as submitted. Audit Committee At-Large Member Dobler abstained.

**E.3. Meeting Minutes of December 16, 2021**

The minutes were approved as submitted. Audit Committee At-Large Member Dobler abstained.

**E.4. Meeting Minutes of February 22, 2022**

The minutes were approved as submitted. Audit Committee At-Large Member Dobler abstained.

**F. PUBLIC COMMENTS\***

There were no public comments made at this time.

**G. ADJOURNMENT (*for possible action*)**

The meeting was adjourned at 4:49 p.m.

Respectfully submitted,

Susan A. Herron  
District Clerk

Attachments\*:

\*In accordance with NRS 241.035.1(d), the following attachments are included but have neither been fact checked or verified by the District and are solely the thoughts, opinions, statements, etc. of the author as identified below.