

MINUTES

AUDIT COMMITTEE MEETING OF NOVEMBER 17, 2021 Incline Village General Improvement District (Amended)

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Ray Tulloch on Wednesday, November 17, 2021 at 3:00 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), Matthew Dent (Trustee).

B. PUBLIC COMMENTS* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration.

Dick Warren said the biggest joke for him is to read in the Transmittal Letter that, once again, the GFOA has awarded IVGID a Certificate of Achievement for Excellence in Financial Reporting, and then to peruse the "Report on Internal Control over Financial Reporting" and find out that IVGID had two Material Weaknesses and two Significant Deficiencies detected by Davis Farr during their audit. If IVGID Management had any integrity they would take that crap about Excellence in Financial Reporting out of their Transmittal Letter; it's a sad joke, and everyone knows IVGID pays for that award, and obviously IVGID certainly never earned it. Two material weaknesses & two significant deficiencies is a big deal, normally heads roll when this happens in the private sector. I seriously wonder how Davis Farr can actually opine on these financials. If they are relying on management's responses to take care of things, good luck with that. The effectiveness of internal controls is about where it was almost 2 years ago, dead in the water. It's obvious that IVGID Management cannot clean up this mess called Internal Controls, and it's also obvious that the Board collectively does not have the guts to fix this problem by firing Indra & Navazio. So the AC needs to recommend to the Board that Moss Adams, or a similar reputable firm, be brought in to get Internal Controls in Place, Running, and Reviewed. We have at least 2 year's worth of lousy CAFR's, do you really think next year's CAFR will be any better? Of course not, the IVGID Finance Talent Pool is very dry. Let's get competent folks in to fix this. Not only can Indra & Navazio not do the job, but they really do not want to do the job, they like the lack of controls because it allows them to do what they want to do. My disgust is not with the AC (you folks are fine), but with the Board. They refuse to acknowledge that Indra himself is a lousy GM, and

Minutes

Audit Committee Meeting of November 17, 2021

Page 2

Navazio as a Finance Director is an even a bigger issue. How many more “screw-ups” re the CAFR’s, Internal Controls, Contracts, etc., can the Board endure before they finally do something about it? You folks on the AC can expedite that process by pointing out the current deficiencies in IVGID Finance Management. And you have a responsibility to do that, you cannot ignore the fact that the Finance folks at IVGID suck. Okay??? You cannot pass on this....period. If you do, then you are wimping out. One quick item, on page 91 Davis Farr says “....the underlying accounting records do not support the financial statements without significant adjustments to remove full accrual accounting transactions for the presentation of governmental fund types...” Really? IVGID accounting can’t even produce the financials WITHOUT significant adjustments? Amazing!!! Thank you.

Judith Miller said whatever action is taken today, she wants to thank the members of the Audit Committee for their activities this past year to bring greater transparency to our financial reporting. There remains much work ahead as evidenced by recent IVGID construction projects as well as the draft comprehensive annual financial report itself especially in the area of internal controls, capitalization policies, and purchasing policies. Admittedly, Staff has an enormous workload but until now has declined to accept outside help; please recommend to our Board that the District contract with appropriate experts in drafting policies for internal controls as well as for capitalization and for purchasing. She also wants to express her hope that the whistleblower policy and the Audit Committee charter will soon be adopted by the Board retaining the recommendations of this Audit Committee. Among the recently released e-mails in Mark Smith’s lawsuit, there was indications that complaints by Staff are not adequately addressed or resolved without the ability to report complaints to an independent body, such as the Audit Committee. Again, thank you for your diligence and she wishes you a very good afternoon.

Mike Abel said Management’s Discussion and Analysis authored by the General Manager and the Director of Finance is quite entertaining to read. Only good things and nothing bad or **potentially challenging**. In three pages they spew out a few bits of semi-accurate information. A few examples.....

States that DP has over 100,000 skiers. Why not the actual of 126,000

States that 35,000 rounds of golf are played. why not the actual of 41,000

States Rec Center at 120,000. Who really knows if this is accurate and upon what it is based.

Beach Visits – Have never been 210,000

Minutes

Audit Committee Meeting of November 17, 2021

Page 3

Development in the district – There is no mention of the ongoing permit process for the 2 acres 30+ unit residential development at Southwood and highway 28 or the impact on the community from the potential development of the OES for a bus terminal with adjacent parking. The paragraph on SNC is interesting as it seems like it was written last year. As we all know there is a significant shake-up at SNC. It is being taken over by UNR. This could significantly affect our community – why no mention? Any or all of the partnerships mentioned may be gone or changed within one year. Strategic Plan talks about delivering exceptional service, update Board Policies, strengthen internal control, improve contract management and enhance transparency and accountability. Yet he has yet to receive documents on a public records request that is now over 40 days simmering. No mention is made about any capital projects other than the pipeline. Maybe that is a good thing in the wake of the Golf Cart Path contracting disaster. Between current management, staff and PW engineering, and Davis-Farr's critique of contracting maybe it is better that nothing is planned. The CAFR claims the Board of Trustees has yet to determine how the effluent pipeline will ultimately be funded. This letter should state – when collection of the \$2,000,000 started, how much is in the fund, and mention the reason for the discrepancy. Why just happy talk. The letter says that the \$830 rec fee is consistent with the District's objective of long-term financial planning and fiscal stability. The General Fund raked in \$860,000 more than needed and now has \$3.8 million which is 33 times what the Board Policy suggests as the appropriate level. Plus, the Community Services Funds hauled in an additional \$2.8 million and now has almost \$16 million in fund balance which is 3.37 times what the Board Policy suggests as an appropriate level. The Rec Fee has not been needed but keeps on getting collected. He guesses as long as the rubes do not complain, just keep doing the same thing. On the other hand, the Utility Fund is stone broke. Money has been collected for the Pipeline and then shifted away to other projects. At June 30, 2021 the Fund is **negative** \$1.7 million after setting aside the \$14.2 million collected for the pipeline and \$3.4 million of commitments on other projects in process. And no reserves 'too boot". Finally – quit that silly GFOA prestigious award nonsense. It is a phony nonsensical waste of time, money, and space in the CAFR. The guy that runs the satirical Republic of Melosia at Nevada Day every year could probably qualify for the same prestigious award. My biggest concern is that the General Manager and the Director of Finance might choke someday by patting themselves on the back too hard!

Linda L. Smith said she has been a property owner in Incline Village for over 23 years. The purpose of her public comments this afternoon is to provide professional suggestions on the report issued by David Farr, CPAs on the internal controls and compliance over financial reporting for the IVGID's fiscal year ending

Minutes

Audit Committee Meeting of November 17, 2021

Page 4

June 30, 2021. By way of background, she served as Director of Finance for the City and County of Honolulu, a municipality of 880,000 residents with an annual budget, at that time, of over \$550 million. The scope of her responsibilities included financial accounting, tax collection, contracting, auditing, cash management, bond issuances, capital improvements, as well as licensing and debt management. Honolulu met GAAP (generally accepted accounting principles) and GAS (government auditing standards) standards every year and had a AAA bond rating. It is from this perspective, as well as being a concerned citizen and taxpayer of Incline Village, that she shares her perspectives on what this Audit Committee is confronting. It is not possible, from the documents she has reviewed, to determine if IVGID is facing a problem of incompetence or, worse, malfeasance. It certainly is alarming to see basic, common-sense processes not followed, such as updating bank signature cards or controlling who has access to the Improvement District's sensitive financial records. What is equally troubling is to see that the underlying accounting records do not support the financial statements of the organization and that proper accrual accounting has not been followed. The problems are serious and include improper statements of capital assets, improper use of accumulated depreciation, and the lack of internal controls to detect and avoid fiscal misstatements. These deficiencies not only mis-represent the fiscal health of IVGID, but they undermine the bond ratings we may seek, and the confidence of investors in those bonds. Transitioning to new financial software next year will not help if the staff are not capable. She believes this Audit Committee has several options, depending upon how serious you view the findings in this report:

1. Set specific benchmarks and timetables for the current staff to demonstrate they have addressed these problems and review their progress on a monthly basis.
2. Determine that the current staff do not have the skill set to handle the job but are trainable and seek assistance from national organizations such as NACO to upgrade their skills.
3. Determine that the current staff do not have the ability to handle the job and replace them with competent, trained personnel.
4. Ask the Nevada courts to appoint an overseer to take over management of the GID, similar to what is done to states and localities who are unable to meet federal operating standards by the Federal government.

Thank you for the opportunity to express her concerns.

Minutes

Audit Committee Meeting of November 17, 2021

Page 5

Carol Black said she is a resident of Incline Village for the about the last 8 years and she is going to join the choir. While recognizing the accolades reported in today's agenda, she was surprised, confused and worried in reviewing the audit report findings to be discussed today. She is not a trained accountant or a finance person, she does not have the creds of Ms. Smith that she believes who just spoke. Nonetheless, having spent a number of years in the management capacity in several different organizations, admittedly in the health care arena, she is a retired physician manager, she has seen and reviewed numbers of annual audit reports. IVGID audit findings include two material weaknesses and two significant deficiencies as you know. She does not recall ever seeing the report with similar serious citations. She finds this particularly concerning given that similar findings were apparently reported last year. The sums are pretty significant, several millions of dollars, moving around to rectify the issues. So corrective actions proposed, she does not understand how this issues have been allowed to persist through last year and now this year and where is the oversight? She has also heard the rumor that there is a proposal to decrease the IVGID audit functions; she doesn't know if that is true or not. If true, she cannot imagine rational for this change given this report. She is hoping for rigorous, remedial and ongoing plans to emerge and she thinks we have heard some very good suggestions today already. Thank you.

Chris Nolet said thank you for the opportunity to provide public comment on the draft audit results for the fiscal 2021 ACFR and the associated District management commentaries. Compliment Ms. Smith for her comments. Some context is in order to fully explain my comments. He believes that the following facts are correct:

The ACFR (formerly referred to as the CAFR) has been cited for containing material errors for the fiscal years ended 2019 and 2020 (which he understands have been corrected through the use of "out of period adjustments" in each succeeding year). Certainly, the draft ACFR for 2021 has material "out of period" adjustments included therein.

Our auditors have reported material weaknesses in internal controls over financial reporting for the past two years. In fact, the draft audit results for fiscal 2021 audit include 2 material weakness and 1 significant deficiency.

It is not an overstatement to characterize the fiscal 2021 and 2020 audit findings as extremely concerning. Fiscal 2021 was to have been a year in which significant focus by management would be given to strengthening internal controls over financial reporting. Well, the audit reports clearly demonstrates that this initiative was a dismal failure. 2 MWs and 1 SD are akin to a gold medal in the Olympics –

a feat rarely achieved. And these findings come on the heels of 2 MWs noted in prior year audit. In the corporate world, those responsible for such negative and consistently poor audit results would be severely reprimanded (at a minimum). Moreover, if the auditors had also been asked to opine on the District's system of internal control over financial reporting, below is an example of how their opinion might read:

In our opinion, because of the effect of the material weaknesses (2) and significant deficiency (1) on the achievement of the objectives of the control criteria, management's assessment that the District maintained effective internal control over financial reporting as of June 30, 2021, **is not fairly stated**, in all material respects, based on [Identify control criteria, for example, "criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)."]. Also, in our opinion, because of the effect of the material weaknesses and significant deficiency on the achievement of the objectives of the control criteria, the District **has not maintained effective internal control over financial reporting** as of June 30, 2021, based on [Identify control criteria, for example, "criteria established in Internal Control— Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)."].

Additionally, several of the District management responses to the internal control observations appear to contradict the specific audit finding noted (as to both the control operation and the amount of the error correction). He assumes that our auditor will **NOT** publish their report and related materials until these apparent contradictions are resolved. As a licensed CPA and auditor for 37 years, he can't overstate how unacceptable these audit results are. With an obviously substandard financial leadership team, the responsibility for these audit results ultimately rests with our General Manager. Hence, the "exceeded expectations" annual performance rating recently provided to our GM is difficult to justify. District management not taking full responsibility for your fiduciary obligations to be good stewards of funds that belong to the District's citizens is not something to be taken lightly. His last comment is this. He simply cannot see how ANY TRUSTEE can accept the draft management transmittal letter which can be found beginning on page 9 of the materials for this meeting. Page 10 of today's materials includes this quote in the transmittal letter – "This ACFR consists of management's representation of the finances of the District and, as such, management assumes full responsibility for the completeness and reliability of the information contained in this ACFR, **consistent with a framework of internal controls established for this purpose.**" As the fiscal 2021 ACFR contains material out of period

adjustments (plural) as described in Footnote 21, how can this statement be true? The omission of 1) any description of the adjustments in fiscal 2021 to effectively restate fiscal 2020, 2) any adjustments made to correct material errors originating in the current year, and 3) the lack of maintaining an effective system of internal controls over financial reporting, renders the transmittal letter materially misleading. He cautions the Trustees not to be associated with such a letter. Thank you.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Tulloch asked for any changes; none were made. The agenda was approved as submitted.

D. GENERAL BUSINESS ITEMS (for possible action)

D.1. Presentation and discussion: DRAFT of the District's Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021 and Results of Audit (Presented by Director of Finance Paul Navazio and Jennifer Farr, Partner, Davis Farr, LLP)

Audit Committee At-Large Member Dobler said he has to leave at about 5:50 p.m. and asked that the comments made by Director of Finance Paul Navazio are kept as short as possible. Jennifer Farr shared her screen and verbally went over a PowerPoint presentation that is incorporated herewith by reference. Audit Committee Chairman Tulloch asked about the footnote regarding no decision on financing of the pipeline; he doesn't understand that when there is a resolution by the Board and money is being collected. Ms. Farr deferred to Staff. Director of Finance Navazio asked if Audit Committee Chairman Tulloch wanted an answer now or after Ms. Farr's presentation. Audit Committee Chairman Tulloch said it can be addressed after the presentation. Audit Committee At-Large Member Dobler asked for further information regarding the unavailable revenue. Ms. Farr said you will see this in governmental, GASB 33 is the reference, and that you can't record revenue if it is not collected in 60 days and this was related to a lawsuit and that this was a classification issue. Audit Committee At-Large Member Dobler said that this was the Katz litigation; Ms. Farr said yes. Audit Committee At-Large Member Dobler said it was actually paid. Audit Chairman Tulloch said that budgets were exceeded even though the funds didn't? Ms. Farr said it is hard with revenues. Audit Chairman Tulloch asked if your review of the capital assets included only the prior year? Ms. Farr said it was not transactional, it was of all funds, and it was since the beginning of

time. Director of Finance Navazio said his understanding is they looked at the total of all assets reported on our balance sheet and requested that we adjust by this amount shown. Audit Chairman Tulloch asked about the \$5,000 threshold? Director of Finance Navazio said we applied the current policy and their analysis stated that there were some that shouldn't have been capitalized. Trustee Schmitz said so if management went through this process and reviewed and applied the policy and you did likewise, how is it that another \$855,000 was found? Director of Finance Navazio said Staff didn't look at all assets, some of the assets have been on the books for 10, 20, 30 and 40 years and that Staff will provide you with the list as requested. Audit Committee At-Large Member Dobler said he probably knows the Effluent Pipeline project better than anyone in this room and while he doesn't know the depreciation, this isn't enough, and he doesn't see that this number is not correct. Ms. Farr said \$3.5 million, accumulated depreciation \$2.7m and that is how we get to the \$855,000. Audit Committee At-Large Member Dobler said we can talk about that later. Ms. Farr continued her presentation. There was a discussion regarding contracts and the District's policies. Ms. Farr continued her presentation. Audit Committee Chairman Tulloch said that there was a severe disconnect with a satisfactory finding and two material weaknesses. Ms. Farr said she heard the comments as well and they stand by their finding. They were not engaged to express an opinion on your internal controls and recommendations are standard. The recommendations are not unusual in the governmental industry. Audit Committee Chairman Tulloch said your opinion of satisfactory means the numbers add up? Ms. Farr said yes, the numbers are correct. Audit Committee At-Large Member Dobler said he would like to talk about capitalization of assets; asked for Ms. Farr to pull up her letter on internal controls; went over the \$3.5 million and \$2.7 million for a net of \$855,000, and then they went to the next page, and he asked if that was another adjustment? Ms. Farr said no, it is included in the total. Audit Committee At-Large Member Dobler asked about the depreciation. Ms. Farr asked if he wanted the depreciation broken out. Audit Committee At-Large Member Dobler said no. Audit Committee Chairman Tulloch said please put the depreciation against each item. Audit Committee At-Large Member Dobler then went to page 45, and said that this is where he was disturbed. The accumulated depreciation for the Utility Fund equipment and vehicles on agenda packet page 45 of the ACFR is incorrect. Ms. Farr said she appreciates this being pointed out and will get it corrected. Trustee Schmitz said what she heard Ms. Farr say is that material weaknesses are not unusual for government entities – can you please clarify what you mean by that? Ms. Farr said yes, she did say that and it is true, acceptable or not –

she is not commenting on. Rather it is more about other governments and that comparison that she has experience with. Trustee Schmitz asked if we were different because of golf courses, etc.? Ms. Farr said most of their other city clients have businesses however the ski resort is different and that amenity is mostly in cities. Audit Committee Chairman Tulloch said we did hear from Ms. Smith about Honolulu and that they didn't have any of these issues; that is a useful comparator. Trustee Schmitz said, in the compliance section, you had management responses for materials weaknesses and significant deficiencies but for the others, you just had your recommendations. It is acceptable to have Management put what their response is to raise the confidence level or is that something that is not allowed because this is the format of the document? Ms. Farr said it is allowed, it is required for material weaknesses and significant deficiencies and it is not required for the other comments but it is certainly allowed. Trustee Schmitz said she didn't see anything in the notes that clarified for us where these accounting adjustments were made as far as the capital assets go? Audit Committee At-Large Member Dobler said we need them in detail. Ms. Farr said it is not a required disclosure and that it would be unusual in the financial report to mention it that and what changed. Audit Committee At-Large Member Dobler said we aren't asking that, we are asking if you have an overall adjustment of \$3 million, depreciation beside it, it is \$2.7 million and what funds did it affect? Audit Committee Chairman Tulloch said that this is the detail that he had requested so perhaps Staff can give us the detail on this. Director of Finance Navazio said the detail is pretty extensive, 10-page list in landscape form, he is happy to provide the list to the committee and post it on the website as well. Director of Finance Navazio then went over a detail record via screen share and it is incorporated herewith by reference. Discussion followed on depreciation schedules and pushing operating losses out further on the pipeline. Trustee Dent said that we have been talking about this for over a year and that the Audit Committee made a recommendation to the Board of Trustees that was accepted by the Board of Trustees in a 5-0 vote and that one of those things was correcting exactly what we are talking about tonight when it comes to the capital. There was a huge portion and he thinks it was \$3.5 million that we were talking about that should have been cleaned up and addressed. So he feels that this is a little like Deja' vu and that we are revisiting ourselves. Groundhog Day is a better way to put it but that it is something that the Board, not just the Audit Committee, directed Staff to fix this to move forward and put this behind us. Here we are, 1 year later, talking about the same thing that the Board directed Staff to fix a year ago. So, he just wanted to put that out there because when the Board gives direction, and it is a

unanimous decision by the Board, Staff should take that and those are the marching orders and that is something that should be corrected. He knows there are several things that are being worked on but what we are looking for is results and not words so Staff can show us that they are doing this stuff instead of resisting it, he feels like we could have moved this forward much quicker and not be revisiting this 1 year later. District General Manager Winqest said he wanted to respond to Trustee Dent's remarks; yes, that is accurate that the Board accepted the report from the Audit Committee and he is not going to argue Trustee Dent's point but he didn't get that was the direction on all of those items and that the Board was directing Staff to make all of those corrections so if he assumed incorrectly or the Director of Finance assumed incorrectly, he apologizes. Accepting a report, to him, is not providing direction to Staff necessarily to do these things. On the issue of the \$3.5 million, to put this to bed, if Staff has to go and just expense it, then so be it. We are not trying to be resistant and all we said was that we were going to leave this decision, that was contentious, up to the auditors which is exactly what we did. If this is what we are going to be arguing about, he has no issue with expensing this stuff and he knows that it is probably not what the Director of Finance expected to hear from him, but this is crazy. Audit Committee Chairman Tulloch said he would agree with the District General Manager and that this is the most successful reasoning around this issue that he has heard. Audit Committee At-Large Member Dobler said he appreciates what the District General Manager just said but it was well spelled out in the Moss Adams report of what preconstruction preliminary items were and those that should be expensed. That is what the Audit Committee did, in great detail, to lay it out. From the report that was given in January 2020, that is the report that we used by type of all of the items that were in that pipeline project and we bifurcated it. Now Staff we want to take some surgical tweezers to it and not look at it. Let's be honest about that, we have been at this for almost 10 years and we have gotten nothing out of it. We finally just decided on a larger pond because we couldn't make the smaller pond last 10 years. At the end of the day, we have had this Marcus guy running around and he is promising to get money here and he is going to get that and we are going to co-locate with the Transportation District; that was all fluff but at the end of the day, what are we doing now? We are on our own and we are doing it because all of the rest of the stuff was preliminary stuff to try and pull the rabbit out of the hat which you were not capable of doing. Trustee Schmitz said she pulled up the meeting minutes, and the motion basically stated "...and their recommendation is for improvements going forward" so it was identified in the motion and in the recommendations it was listed that the recommendation was to include the

Minutes

Audit Committee Meeting of November 17, 2021

Page 11

expense write off of roughly \$3.1 million so she is pulling up what was discussed last year that Trustee Dent brought up. It appears to her that there was very specific direction that was given and that she is just going back and looking at the agenda item and the meeting minutes. Director of Finance Navazio said he is of the same opinion as the District General Manager, and in those very same minutes there were Trustees that said "they are comfortable implementing the recommendations but not any specific dollar amounts because Moss Adams also said that any write offs related to the pipeline project, and going back to the matrix of the 24 comments, should be reviewed in this year's review of the financials in consultation with the new auditors. Staff doesn't believe it should be written off, using the same criteria for all of this, no different criteria to the pipeline, past auditors looked at it, current ones looked it, and Staff is fine with getting this issue behind us. Audit Committee At-Large Member Dobler said he opened up the doors at least a dozen times and said let's all sit down and go over it because he has the most history and that no one would call him and he has asked for someone to call him at least half dozen times. Audit Committee Chairman Tulloch said he will defer to the two Trustees who made their views clear, he does not totally agree it has been consistent and no one thinks the repairs will keep it going for another 35 years which would be consistent with the depreciation schedule and we are arguing over the timing of it. It makes much more sense to take the hit on it now, clear the decks, and be aware of it. District General Manager Winquest said he is not trying to argue the point, there are different interpretations, and Staff just wants to put this behind us, move forward, and expense out these items. To Audit Committee At-Large Member Dobler, you have suggested discussing it, but only one sided conversations so let's get this done. Audit Committee Chairman Tulloch said it wasn't intended as a slight to Audit Committee At-Large Member Dobler. Everyone's desire is to move on and looking at clearing up any write offs and doing a rate study so this is clearing the decks. Audit Committee Chairman Tulloch said it was requested that the Audit Committee wanted to see, by fund and with the detail, to see where the accumulated depreciation etc. it is coming from. Where is the write off coming from? Director of Finance Navazio said he will have it in his summary - \$389,000 was Utility Fund, \$332,000 to Golf Fund, \$110,000 to Ski, \$54,000 to Recreation Center, \$46,800 to Beach Fund. Audit Committee Chairman Tulloch asked if this applied to last year's statement? Director of Finance Navazio said yes and they roll up. There is also a small amount for the General Fund. Audit Committee At-Large Member Dobler said going to agenda packet page 28 – the dilemma we have – governmental funds and statement of revenues and expenditures are on an all cash basis. What the Director of Finance did

in May 2020, he had a whole lot of things that we decided that there were certain items that they thought were capital but should be expensed. Look at the middle of the page, those are expenses and are not capital assets, look at GASB 54 and NRS 354.495 both of which he read. These are expenses that should be recorded elsewhere. Same situation with the beach capital project fund – we have to move those out. The rub on it is because they are expenses, you have overstated your net revenues because you don't have those expenses in there and the beaches would have a big loss. Director of Finance Navazio said that this reflects that when we budgeted and expensed an item, budgeted in capital project funds, and when we went through and identified them, we expensed them instead of capitalized. Expenses got taken out of the numbers below so this is showing them as expensed. Brought this up with the first draft and the auditors felt it wasn't illegal etc. to report them so they were looked at as Staff raised the issue. Audit Committee At-Large Member Dobler said it doesn't comply with GASB 54 or 354.495 – can't have it both ways. Ms. Farr said it is not a violation of GAAP, extremely rare for 100% of a capital project to be capitalized, not a 1 to 1 ratio, current presentation is not uncommon or a violation of GAAP. Appreciate that the fund is supposed to be used for capital projects and it may include other items that are capitalized. Director of Finance Navazio said Staff will look at it and that he appreciates Ms. Farr's comment about not being against GAAP and GASB. Audit Committee Chairman Tulloch asked about the increase over prior year; asked Staff to look at it. Trustee Schmitz asked what is the decision on TWSA and where are we going with that? Director of Finance Navazio said we determined that it met 90% of the criteria thus TWSA is still reported in the Utility Fund. Controller Williams said it is due to the payroll being paid and therefore it is still within the Utility Fund. Audit Committee Chairman Tulloch said is there any reason we don't have a separate account for it as to any liability to the District? Controller Williams said it is just up to the funds. Audit Committee Chairman Tulloch said is the District underwriting them? Controller Williams said no, just a checkbook for them. Trustee Schmitz said what is the checkbook requirements for another organization? Director of Finance Navazio said we have IVGID Staff charging to the fund and we have discussed another situation and billing them and if we do that, it would be appropriate to show it as a fiduciary fund. Ms. Farr said GASB 54, fiduciary fund, the District would have to benefit in no way from the transactions of the entity. The District is a beneficiary in a way – using the services, etc. – thus not allowed to be a fiduciary fund. No transactions with them but the fact that you are beneficiary is what disqualifies them. Audit Committee Chairman Tulloch asked about the Veterans Club. Ms. Farr said for the dollar amount not

Minutes

Audit Committee Meeting of November 17, 2021

Page 13

enough to report as a separate fund. Audit Committee Chairman Tulloch said so as a District we are not on the hook for any checks they write? Controller Williams said we write the checks for them and we won't write the check for more funds than they have. Audit Committee Chairman Tulloch said on agenda packet page 90, Compliance Section, this may answer some questions for our listeners. On agenda packet page 91, half way down, acquired before 7/1/2016? Director of Finance Navazio said yes, he believes that is correct and Staff will review the management responses and make them more comprehensive as well as identify areas that need to be improved going forward; these are short hand responses that warrant some more detail. Audit Committee Chairman Tulloch said he would be happy to get together and help with that. Audit Committee At-Large Member Dobler said cited several concerns on agenda packet pages 51 and then with a reference to agenda packet page 24 and concluded by asking everyone to read GASB 54. Audit Committee Chairman Tulloch said he disagreed about the legislation. Audit Committee At-Large Member Dobler said he doesn't think people understand it. Audit Committee Chairman Tulloch said that legislation is about State or Federal and that a policy passed by an entity doesn't qualify as legislation. Audit Committee At-Large Member Dobler asked for that in writing. The legislation is NRS 383. Audit Committee Chairman Tulloch said the legislation allows for the collection of the fee. Ms. Farr said the only way to have the restriction is the first moment/day of the creation. If that restriction is part of that, create a brand new fee, and that fee would be restricted for this project, then it could be against this project; deciding how to spend fees does not meet the legislation test. Trustee Dent said he had no comments. Audit Committee Chairman Tulloch said we haven't addressed the transmittal letter. Audit Committee At-Large Member Dobler said regarding the charge off of the baseball fields, etc. Eide Bailly has a correction of an error. Then referenced Davis Farr and restatement of net position and fund position – it is not in there and it has got to go somewhere. Ms. Farr said we do have a correction of that error, we are not requirement to use that specific language, and we call it a prior period adjustment and it is the same thing. Audit Committee At-Large Member Dobler said he doesn't see any. Ms. Farr said it is Note 21. Audit Committee Chairman Tulloch said agenda packet page 54. Audit Committee At-Large Member Dobler said it is not there for \$835,000. Ms. Farr said it is not material for the financials and it is in the governmental column of government wide statements. Audit Committee At-Large Member Dobler said so this is not disposal of assets rather it is a loss of writing off assets, agenda packet page 31, wording change \$538,000 and the \$300,000 is somewhere else? Ms. Farr said she agrees we could change to say loss on

sale of assets. Audit Committee At-Large Member Dobler signed off the meeting at 5:43 p.m. Trustee Schmitz asked if we have lease obligations at this point for Tyler Software? Director of Finance Navazio said no, we will look at it but it is not considered a lease. Audit Committee Chairman Tulloch said it just a liability – multi-year agreement. Controller Williams said we don't have a set term that we can calculate and therefore it doesn't fit in the current GASB. Audit Committee Chairman Tulloch said so it is an annual obligation? Controller Williams said yes, we have an annual payment but no term so we can't calculate that. Director of Finance Navazio said there was a lot of attention on material weakness; the actual adjustment is not material to the financial statements. When we first looked at it, it was not material. We chose to make the adjustment, just to be more accurate, which resulted in a finding but the internal control and integrity issue is viewed a little different. We have a material weakness on internal control which Director of Finance Navazio explained. Audit Committee Chairman Tulloch said it reflects the public comment we heard and that this is being disingenuous, not being totally transparent, and that we have a GFOA award which we basically pay for. One of the objectives of the District is transparency and the transmittal letter is what people see in the community. A previous Trustee has stated that everything was perfect and that IVGID had a very clean audit report. It is not a perfectly clean auditing report because what is behind it is being a bit disingenuous. It is healthy to be clear and maybe embarrassing. Everything hunky dory, no. Director of Finance Navazio said we have a material weakness and a clean opinion which is not referring to the transmittal letter and others may chime in. There is no intent to sweep anything under the rug and last year, he and Trustee Schmitz worked on it. Ms. Farr said that in the transmittal letter there are specific things that are required to be in there and she can provide the list. It does not require to have any comment on internal controls and she likes the idea of referring the reader to a separate letter however she can't recall any mention in any letter. Audit Committee Chairman Tulloch said it is more about the findings and an action plan to correct these things – it is missing. There is a glaring weakness that we have time to adjust. We do need to show a plan for improvement and that this is a fairly limited audit – the plan is something he would like to see. Trustee Schmitz said in the best interest of the District, we should add some additional information as we have got two paragraphs that describe the GFOA award therefore we need to have two paragraphs on what we learned and are going to do better and then refer back to the compliance section. By getting it out into the open, she thinks it is a credibility builder. We have two paragraphs describing an award and we don't have two paragraphs about what the internal controls were and the actions the

District is taking. It is in our best interest unless she is missing something. Trustee Dent said he would agree with Audit Committee Chairman Tulloch and Trustee Schmitz regarding transmittal letter. He thinks this Committee is different and that does build credibility and it starts to build it. He wants to thank Davis Farr and Ms. Farr for staying on schedule. This is the 7th audit he has been on and it is the first time we are seeing it in November. We have made huge steps forward and kudos to Staff and our Auditor for committing to the plan and sticking to it. We should lay out how much we are over or under in our policies on our fund balances as that is important information that we can no longer hide from our constituency. Audit Committee Chairman Tulloch said that is an excellent suggestion. District General Manager Winqest said there is no attempt to try and avoid folks from understanding there is findings, no problem adding that and that Staff is taking steps to correct. Most of the people he talks to understand that there are things that come up and they will be corrected. He asked that the SNU reference be taken out as we don't have a joint use agreement any more. As far as GFOA Certificate of Excellence, it is an extremely thorough packet, and he thinks that is being exaggerated. Trustee Schmitz said thank you to Ms. Farr for being very thorough. If we do make some of these statements in the transmittal letter, is there any risk or negative to taking the approach? Ms. Farr said there is no risk and when you do get the GFOA award, she doesn't think they would get a finding from GFOA however that would be worth seeing what happened. Audit Committee Chairman Tulloch said he was making broad brush comments so he didn't mean any offense. Echo the positive comments made by his colleagues. As a first draft, this is very encouraging. Thanks to the Staff as well and it goes both ways. What is our timeline for revisiting a revised document – near final? Director of Finance Navazio said this was a very helpful and constructive conversation. Hopefully, we are still on schedule and the current schedule would call for a final report to come back to the committee in December and we are also on schedule for the Board to receive the report and file it. There is only one Board meeting in December, that is December 8, hope that the Audit Committee will have a meeting on the same date. There is a lot of work to do so we may come to the Board at its workshop later in December. Audit Committee Chairman Tulloch said it is not going to be on the same day. Know it is the desire to comply with December 31 filing date. Ms. Farr said she is fine with the schedule.

E. PUBLIC COMMENTS*

There were no public comments made at this time.

F. ADJOURNMENT (for possible action)

The meeting was adjourned at 6:07 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.

Submitted by Diane L. Becker: Concerns about deficiencies identified by the Auditors in the District's 2020-2021 Financial Audit: Recommendations re Adoption of Formal Policies and Employee Training on Policies