

MINUTES

AUDIT COMMITTEE MEETING OF FEBRUARY 22, 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 Tuesday, February 22, 2022 at 6:00 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) and 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 for the past 6 years the Board has charged excessive facility fees, which were not needed. This resulted in the following funds having excess Cash – General Fund \$6.7M when only \$118k needed, Community Services \$17.6M when only \$2.8M needed, and Beaches at \$5.1M when only \$726k needed. During 2019 & 2020 \$1.1M in interest was earned and the General Fund got \$700k (64% of earnings) but only had 23% of the Cash to invest. On June 23, 2021 Cliff Dobler provided information to the AC showing that \$492k in excess interest was reported in the General Fund but should have gone to the CS & Beaches Funds. The Director of Finance’s Team stated that only \$43k was improperly recorded in the General Fund, but that was based on using bank operating accounts, not investment accounts, and \$43k is too immaterial to correct. On August 10, 2021, the Director of Finance’s Team talked about increases in market values of CD’s but provided no evidence. Then at the October 26th AC meeting, Cliff Dobler asked Director of Finance if an adjustment would be made to put the money in the correct fund, Director of Finance stated “that would not be necessary since we can move money in & out of funds legally, but corrections are a bigger problem”. How about NRS 354.6117 – Limitation on money transferred to certain funds? How about required disclosures on the financials and State Budgets, which was not done? So none of this is illegal? Bull! Nothing was done to correct the 2021 CAFR; however, Director of Finance did assert that the accounting for investment income has been modified beginning with the 2022FY. How stupid can one be? To summarize, IVGID/BOT unfairly took excess Facility Fees from the Parcel Unit Owners, did not use the excess Fees but invested the Fees, and then siphoned off the interest to the General Fund for Administrative Overhead like consultants, legal fees, and services & supplies. That \$492k of

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excess interest put in the General Fund could have bought a whole lot of equipment & improvements for the Recreational Venues. This is shoddy accounting, and certainly illegal. Thank you.

Ellie Dobler said Director of Finance and District General Manager, would you like your money stolen from you? For the past six years, the Board charged us excessive facility fees which were never needed, building up a cash hoard exceeding the appropriate amount established by Board Policy.

- General Fund \$6.7 million in cash but should have only \$118K
- Community Services \$17.6 million in cash but should have only \$3.8 million
- Beaches \$5.1 million in cash but should have only \$726K

Since there was no need for these excess funds, they were invested in an interest-bearing account. But rather than keep the money separate by activity, they were comingled with the General Fund. Then, the interest earned on the investments substantially went to the General Fund. During 2019 and 2020, \$1.1 million in interest was earned and the General Fund received \$700K or 64% of the earnings but only had 23% of all cash to invest. June 23, 2021, Cliff Dobler provided a memo to the Audit Committee (AC) indicating that based on the average cash held during 2019 and 2020, \$492K was reported in the General Fund which should have been reported in Community Services and Beaches. Director of Finance came to our home, prior to the Oct. 26, 2021, Audit Committee meeting, where Cliff showed him the actual General Journal, with 70 pages of entries. When asked by Cliff if an adjustment would be made to put the money where it belonged, Director of Finance stated "I am not sure we need to do that because as long as it is not illegal to move money from fund to fund, we can do that. Any correction we would want to do is a bigger question." And what is that bigger question? So, was any correction made in the 2021 CAFR? NO. Director of Finance 's response to the AC concerns: "The accounting for investment income has been modified beginning with 2021/2022(current fiscal year)." So, keep the money and we will fix it going forward. That's just Outrageous. \$492,000 could be spent properly repairing the Village Green. This needs to be addressed NOW, not next year. Let's review this. Take someone's money for specific items, don't spend it, invest it and then siphon off the interest to another fund for Administrative overhead, so Trustees and Staff can lavish themselves with consultants, legal fees and spend 3 times more on services and supplies from 2 years ago.

Mike Abel said his comments echo Mr. Warren and Ms. Dobler's to a great extent with some difference. He has been attending IVGID meetings for 12 years. In that time, he has seen corrupt bidding practices, mismanagement, foolish waste of

funds (like Dr. Bill the shrink), concealment of public records, and now misappropriation of funds. A couple of years ago, we finally got rid of our former Director of Finance and brought in our current Director of Finance to “straighten out” our books. And, last year we got an Audit Committee to oversee the mish mash that was IVGID’s finances. Plus, we got the bonus of having Moss-Adams to review and make recommendations on IVGID’s financial reporting and practices. Hope springs eternal for the small klatch of folks who are “IVGID watchdogs”. Sadly, the recommendations of Moss-Adams that were approved of by the Audit Committee and the Board of Trustees, are not being implemented by IVGID upper management. When we look closely at IVGID’s finances, we see the same old pattern of deception and mis-appropriating. Specifically, Mr. Dobler has ascertained that IVGID management has taken approximately \$492,000 of investment earnings from the State of Nevada investment fund. Then they allocated 100% of it to the General Fund rather than allocating most of this money to the Community Services Fund and Beach Fund where it directly benefits the recreation users in Incline Village and Crystal Bay. For the unschooled, the General Fund should be renamed the IVGID slush fund. This is the fund where our GM hires his favored consultants, pays bloated legal fees, \$100 lunches, and approves pet projects like the shrink – Dr. Bill. The bulk of that +\$400K could pay for a lot of improvements to our recreational venues rather than this nonsense. In a further act of impropriety, none of the above action was reported in the CAFR for 2021 or the annual budget. Now he does not know if the tomfoolery that he refers to here is the result of Director of Finance’s work, or it is being done under the tutelage of the District General Manager, but he does know that the practice outlined above is illegal, dishonest and represents a misappropriation of the public’s funds that should benefit the recreational assets of IVGID rather than IVGID management.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Tulloch asked for any changes; Trustee Schmitz said tonight’s General Business Items D.5.a., D.5.c., and D.5.d., and this question is directed to Audit Committee At-Large Member Dobler and District General Counsel Nelson, are elements that she believes have been incorporated into the letter from the Audit Committee and if that is correct, then she thinks those 3 things should be incorporated into the discussion of General Business Item D.1. if that is possible. Audit Committee At-Large Member Dobler said that Trustee Schmitz is correct regarding D.5.a. and D.5.b., we have incorporated those into our memorandum to the Audit Committee but we rarely if ever have talked about the charges to the golf course that we think should be expensed. They have not been included in our report so we might just want to brush on those. Trustee Dent said he does not

have any concerns with the agenda as he is fine with how it is written nor with the comments. He just wanted to comment that at the last Board of Trustees meeting, he brought up the fact that we are running a member short and he asked Staff and the Chair to move forward with the process to solicit potential members from the community to sit on the Audit Committee and he just wanted to let the Audit Committee members know that he did make that request and that he followed up with District General Manager Winquest and also our Chair today. Audit Committee Chairman Tulloch said that he believes it is the role of the Board to solicit applications for that, is that correct? District General Counsel Nelson said that is correct. Audit Committee Chairman Tulloch said he assumes it will be on the next Board agenda? District General Manager Winquest said he did forward this request onto the District Clerk who we hope will return full time to the office next Monday and working on this process. We won't have anything ready to bring forward to the Board to appoint anyone but as far as getting the process started, we expect to get it going no later than the end of next week. We will move through the process as quick as we can and get it before the Board for formal appointment. Audit Committee Chairman Tulloch said that he was slightly confused about the process as if this is about filling the position vacated by Mr. Aaron and in that case, that post would be up for re-election in May, is that correct? District General Manager Winquest said that this was one of the items that he wanted to follow up with the District Clerk and District General Counsel Nelson. We need to ensure that it is worth going through the process right now knowing that there are going to be appointments this coming June so we can certainly follow up. District General Counsel Nelson said he would have to double check Mr. Aaron's term and that if expires at the end of May, that would be correct but we need to confirm. Audit Committee Chairman Tulloch said he thinks it is him that has misspoken as he thinks that Mr. Aaron's term would run for another year past that; he was incorrect there and was thinking of the wrong schedule. Trustee Schmitz said that the terms are from July 1 through June 30. Audit Committee Chairman Tulloch said that he would suggest that for General Business Items D.5.a. and D.5.b. which appear to also be covered under General Business Item D.1. and that we include them with General Business Item D.1. as necessary and if we haven't covered them, then we can review them when we get to General Business Item D.5. District General Counsel Nelson confirmed that was satisfactory. Trustee Schmitz said she wanted to be clear that it was General Business Item D.5.a. and, if she understands Audit Committee At-Large Member Dobler, it is General Business Item D.5.d. and that perhaps she had misheard Audit Committee Chairman Tulloch and that he had said General Business Item D.5.b. so she just wanted to be clear that we are all on the same page. Audit Committee Chairman Tulloch said good catch Trustee Schmitz as yes he did say General Business Item D.5.b. as he thought that's what he heard and he asked Audit Committee At-Large Member Dobler if it was General

Business Items D.5.a. and D.5.d.; Audit Committee At-Large Member Dobler said General Business D.5.a. and D.5.d. when we discuss General Business Item D.1. Audit Committee Tulloch said ok and that was his mistake on that one. The agenda was approved as revised.

D. GENERAL BUSINESS ITEMS (for possible action)

- D.1. Review and discussion of District Management’s response to the Audit Committee report to the Board of Trustees on the Annual Comprehensive Financial Report (Requesting Audit Committee Member: Audit Committee Chairman Raymond Tulloch) – *revised to include D.5. Review, discuss, and determine if action is required for the following correspondence and memos received by Audit Committee regarding: (Requesting Audit Committee Member: Audit Committee Chairman Raymond Tulloch); a. Charge off of expenses which have been included in construction in progress and d. Review reporting and use of Facility Fees (carried over from the June 9, 2021 Audit Committee meeting)***

Audit Committee Chairman Tulloch gave an overview of the submitted materials. Audit Committee At-Large Member Dobler asked if the Audit Committee could handle these items in the order they are listed and go one-by-one. Audit Committee Chairman Tulloch agreed to that format. Director of Finance Navazio gave a brief overview of Staff’s response which was included in the Audit Committee packet.

Management Representation Letter

The following questions were asked and answered:

Audit Committee Chairman Tulloch: Do the changes in the Board policy of February 3, 2022, was that change so that the Management Representation letter was independent of the Audit Committee?

Director of Finance Navazio: He doesn’t have the policy in front of him but he does still believe that the policy has language in it that the Audit Committee is responsible for review of the Management Representation letter prior to Management signing it. The only thing he thinks that was changed was to approve the letter. Staff will be working with Davis Farr to produce a draft of the letter so people can see it. He would also highlight

that it is really a form letter that they produce; we will make every effort to share the letter with the committee.

Trustee Schmitz: She went out to the website to pull up the revised language and the website is not updated so she couldn't help Director of Navazio out but that she thinks it might be worthwhile and a good suggestion to be clear to the Board that you perhaps right after your acknowledgement statement, make a statement that you and your Staff will be following Policy 15.1. and this situation won't occur in the future.

Audit Committee At-Large Member Dobler: His only comment on the statement is that we are supposed to review and approve formal reports and letters and the very first line of the representation letter says it's a letter and to go on and say it is impractical, or more importantly, inappropriate; why would that be inappropriate if that is what the policy says?

Trustee Dent: Had no comments.

Audit Committee Chairman Tulloch: He agrees with Audit Committee At-Large Member Dobler that Staff should go by the policy that is enforce at the time and that he doesn't agree with looking for retrospective changes to the policy.

Scope of Independent audit (of financial statements)

The following questions were asked and answered:

Audit Committee Chairman Tulloch: The reason he points this out is because a past Board member stated that because the auditors had passed it, everything was wonderful with our finances. The auditor does give us a perfect financial bill of health and that quite frankly all this audit does is confirm that the numbers add up and that there are no apparent mismatches. We had a very strong recommendation that the scope of the audit be expanded beyond the bare bones of it and extend it to include review of internal controls.

Audit Committee At-Large Member Dobler: If you look at the reports given by Davis Farr, when it comes to internal controls, they do only certain limited tests and they do not give an opinion on it. But when we got into the details, they only looked at 7 contracts and had problems with 3 so that's like a 40% error factor on a very limited test sample. So, therefore, he doesn't know how anybody on this Audit Committee would be comfortable that Contract Administration is being done particularly well so therefore expand your audit, and that is what happened when he was an auditor, they would come to us and say we have got a great big error factor here and could you expand our audit to do a larger sample. They did their test and 3 out of 7 were wrong

and that's a high error factor. We should expand the audit in the areas where we know there are substantial weaknesses.

Audit Committee Chairman Tulloch: That is his experience in corporate audits as well.

Trustee Dent: He would agree with that and we have had a very general audit the last 7 years or 6 years or even longer but since he has been on the Board and it is time to spend a little bit more money and dive in a little bit deeper and see if there are any additional issues and put those to bed. He thinks a lot can be done to create a better work environment and create the trust that the public had and this is one way that we can help expand the services and just show everyone that we are taking it seriously and diving into it a little bit deeper.

Trustee Schmitz: She is thinking that again it would be helpful if Director of Finance Navazio adds something here because Staff has retained outside management consultants to help facilitate and to move this effort forward a little bit more expeditiously. Again, it might worth at least noting that and it is one thing to say we have the controls and it is another thing to say we are going to have processes in place to ensure they are being adhered to.

Audit Committee Chairman Tulloch: He can also comment from his own professional background in his former career doing management audits there is certainly a lot more comprehensive and in depth audits. This is part of our recommendation to the Board and he is sure that Trustees Dent and Schmitz will support it.

Material Weaknesses

Audit Committee Chairman Tulloch said that you concur on this one.

Internal Controls

Trustee Schmitz: Apologizes and said that her comment, that she just made, was relevant to this item so she apologizes as she was speaking out of turn and asked Staff to take that feedback and relate it to internal controls.

Audit Committee Chairman Tulloch: No issue as he thinks it applies to both and a lot of our other comments were focused on internal controls as well.

Director of Finance Navazio: All the internal controls mentioned by Davis Farr have been addressed.

Audit Committee Chairman Tulloch: Can you please give the committee an update on your timeline on completing internal reviews?

Director of Finance Navazio: Staff is going through internal finance procedures and we have engaged the assistance of a consultant, Management Partners, who is assisting with the review of our updates,

identifying gaps, and also help align where there are opportunities to align them with best practices. He would note that the major focus of the consultants' work is going to be, broadly in the entire area of procurement, and specifically review and update the District's purchasing policy which is a prerequisite to updating procedures for procurement such as bidding, purchasing, payment processing, and reporting. In your report, you recommended Staff get this done by April and our contract, while we are working as quickly as we can, is slated for May and our goal is to update as many as we can as we go and then as we go into the new fiscal year to have all the procedures and documentation updated particularly if we transfer to a new financial system which will also warrant an additional review because of the workflows we are building into that system.

Audit Committee Chairman Tulloch: Perhaps you can clarify, as he already had the discussion with the District General Manager, when he reviewed the contract with Management Partners that it seemed to be focused almost entirely around procurement and the references to internal controls were used fairly sparse.

Director of Finance Navazio: They are reviewing the entire library of accounting and finance procedures and that is a matrix that we shared with the committee, heard comments from the committee, in the two or three times that it came before you, and that was why is it taking so long and can you do it quicker so the District General Manager urged us to seek out assistance that will help us move that project forward with the urgency that it needs.

Audit Committee Chairman Tulloch: With regards to best practices and having worked with the big 4 firms, he is curious as to whose best practices they are using?

Director of Finance Navazio: You may have to ask them but he will tell you that they are not looking at corporate/private sector best practices rather they are looking at general industry and specifically local government best practices which is what IVGID is as an entity and any requirements that go with NRS and Board policies, etc.

Audit Committee Chairman Tulloch: So it's local government best practices rather than best practices and he thinks that is important as Staff is aware of the correspondence that we get from the community.

District General Manager Winquest: This is going down a path that we can discuss offline. We hired Management Partners, they specialize in governmental agencies, we are a governmental agency and as the Director of Finance said by no means are they overlooking overall industry best practices. His concern with the former consultants that we have worked with is that most of those consultants had 0 experience with governmental

accounting and what we really wanted to focus on with our internal policies and procedures was hiring someone that understood GAAP, GASB and everything else and also understood how government agencies work in practice. He doesn't want any reference that this is not a thorough review of our internal policies and procedures and once this effort is finished, we will be able to move on to other more traditional and significant internal controls. We want solid internal policies and procedures that can be implemented and practiced by Staff.

Audit Committee Chairman Tulloch: He was simply clarifying and every time he hears references to best practices he thinks it can be used for a variety of matters but thank you for the clarification on that topic.

Trustee Schmitz: None of you have access to the updated Policy 15.1. so just bear with her here but she thinks we should have on our long range calendar, paragraph 2.6, which she read, so perhaps what the deliverables are, with the engagement, so she is asking the Audit Committee Chairman to look at this policy along with the Director of Finance and see what needs to be on our long range calendar.

Audit Committee At-Large Member Dobler: First, Davis Farr is not expecting an opinion on internal controls and they only looked at the expenditure side but him having tremendous knowledge on the business side of activities like golf courses, ski resorts and things – nobody is focusing on the revenue side as we are always talking about the spending. There has been no focus on that and he has 3 or 4 restaurants where he has been a partner on and there needs to be a focus on food and beverage. Odds are that your internal controls on revenue are not too good.

Audit Committee Chairman Tulloch: He agrees that the focus on internal controls has been on the macro level and that he is sure that the District General Manager and Staff will turn their attention to the micro level on internal controls; your raise a good point. At this point, these people work for the District General Manager and that it is up to him and the Director of Finance to ensure there are adequate controls in place for these.

Director of Finance Navazio: If the Audit Committee thinks that the auditors only looked at expenditures, Staff provided you with a list of items tested by the auditors and that included several revenue items.

Prior Year Adjustments

Audit Committee Chairman Tulloch: The ownership is yours Director of Finance Navazio.

Director of Finance Navazio: Ownership accepted.

Audit Committee At-Large Member Dobler: Keep in mind that we asked Moss Adams to take a look at four areas and one of those areas was the

capitalization of the assets and that is most of the prior period adjustments. Everybody participated and this is what you should do. He did all the hard work to turn it around and the way this is referenced is that the Audit Committee is standing in the way here and he doesn't like the way it is written.

Audit Committee Chairman Tulloch: He would concur with that and just because something has been passed by the auditor, they may not be as familiar with Board policy and he too would take exception to that. The Audit Committee is providing oversight, which it is tasked with, and ultimately, the Board has the ultimate responsibility for oversight and all we can do is recommend to the Board.

Trustee Schmitz: She too didn't care for how this was ending as it wasn't necessarily a request from the Audit Committee, it was due to the Audit Committee's work. We were doing our jobs and because we were here and doing our jobs, we were working collaboratively with Staff and these things were addressed. The way this is written and she read it and the way in which is this stated it doesn't share that we have been working together and resolving issues and we might want to look at it for revision.

District General Manager Winquest: That wasn't the way it was written and Staff will look at it.

Capital Asset Write-off

Audit Committee Chairman Tulloch: Asked if this was fixed assets?

Director of Finance Navazio: Staff uses this term interchangeably and if an asset has wheels it is still an asset.

Audit Committee Chairman Tulloch: When the Audit Committee reviewed this, it was about compliance with the Board policies and practices.

Trustee Schmitz: This statement contradicts and after Audit Committee Chairman Tulloch provided Practice 9.2. to Ms. Farr, she wrote that there isn't any latitude of interpretation (page 9 of the current Audit Committee packet) and we shouldn't have a document and another document that contradicts as there wasn't an idea that there shouldn't be an interpretation and then she read the language about the threshold of a capital asset being \$5,000 and noted that there was no mention about a grouping of assets and its capitalization.

Audit Committee Chairman Tulloch: Read aloud the last line of the submitted memorandum for this item and said that he wasn't aware of any of these items being retrospective?

Director of Finance Navazio: No, but that the sentence right before it states that Management does not believe that our treatment of the capital asset write-off violated Board Policy 9.1. or Practice 9.2. and that if there is some

confusion about the interpretation then the goal of the new policy was to clarify that.

Audit Committee At-Large Member Dobler: He is not going to talk about the individual component because that is crystal clear within the policy because you don't capitalize them if they are less than \$5,000. So for you to make that statement is absolutely 100% incorrect. What he is more concerned about is big tickets items as the idea is that Moss Adams did their report that everybody participated in when it came to be what you should be charging off as expenses and one of the biggest items was all this paving that we were doing at all these facilities. So, in 2019, based on what was in the CIP and not yet capitalized individual assets, we turned around and wrote off 38 projects that were paving of \$435,000. The other thing that we wrote off was the idea of the assessments so when you are assessing the project and you don't know whether we are going forward with just like the Diamond Peak Master Plan and the Community Services Master Plan that we would turn around and expense those. The District, in 2020, turned around and expensed off the high school baseball field and the Community Services Master Plan so we did that in 2020. What he did immediately is he went to the CIP and took look at what projects in process that should have been expensed and that you obviously missed and he did a report to you and the District General Manager that there was a \$1,170,000. of these assessments that needed to be charged off and that was on June 9 and you did get the memorandum. The idea is forgetting about and we are not complying with what Moss Adams told us we should be expensing. Now in getting back to the paving, in 2019, you wrote off 38 projects for \$435,000 and then in 2020 you wrote it off but these paving projects that occurred in 2020 you didn't write off. Then it was an item that Davis Farr looked at and they said yeah, write that off and then you turn around and say let's put it back in thus you are not being consistent. If we decide to write it off in 2019, you don't turn around in 2020 and say we were going to write off and now we are going to keep it back in and what is even worse is that in 2022 and 2023 you have the small paving projects in the capital asset budget. There is no consistency here and that is \$677,000 so whatever Davis Farr might have wanted to concur with is that they don't care one way or another because there is no specific GASB statement that says you will expense this or you will capitalize this because it boils down to a judgment, we got that clarified from Moss Adams, so let's follow it but you don't do it one way in one year and then the next year don't it and the real deal is that you had to write-off \$677,000 that was reversed with what Davis Farr did and there was another \$1,170,000 of assessments that should have been written off also and we didn't do it and that is \$2 million bucks.

Audit Committee Chairman Tulloch: He fully supports having consistency.

Director of Finance Navazio: We will be discussing this more with the Board next week, they will be expensed, and they are in the capital budget and unless they deal with reconstruction and extending the life of the pavement, they will be expensed.

Audit Committee At-Large Member Dobler: You are talking about the current budget and he is talking about 2 years in the past. He is talking about all these assessments that our previous District General Manager and our current District General Manager wanted to get done and these are assessments. A lot of them aren't moving forward and what is the difference between an assessment and doing a Master Plan on Diamond Peak and doing a Master Plan just on Community Services and you write off the Community Services but you don't write off Diamond Peak.

Director of Finance Navazio: To Audit Committee Chairman Tulloch's question earlier, we are clear on the concept of when we were doing this work and however done is appropriate to expense. Staff believes we have gone through and done that expensing.

Audit Committee Chairman Tulloch: He would echo consistency and would agree with Trustee Schmitz' comments. Frankly, he is shocked and doesn't know of an ala carte option in the Board policy.

Trustee Schmitz: We are not seeing the facts through the same lens because the Audit Committee has been very clear and we were unanimous in our opinion and judgment as it relates to the policy so to say it is factual incorrect is factual incorrect. In addition, when Ms. Farr was consulted and changed her opinion on it, and in addition she agrees with Audit Committee At-Large Member Dobler as she too went through the list and there were many things that were paving, repairs, and cart path repairs and those things we had decided that they were to be expensed. So if those projects, in that list, perhaps were incorrectly labeled, then maybe that should be corrected so that we can all get on the same page and be looking through the same lens because we clearly aren't and she understands that Management has told her there is nothing against GAAP or GASB with doing this grouping. That isn't the point, the point is the Board policy is extremely clear, it is a one sentence, very clear and the Audit Committee hasn't been given anything, in writing, that is an explanation to know how Management is perceiving of a very simple sentence that things can be handled very differently. To word it and begin with a statement that is factually incorrect is again sort of an affront to a unanimous decision and a unanimous sentiment from the Audit Committee.

Audit Committee Chairman Tulloch: Add to that while Board policies should not contradict GAAP or GASB but they could layer on top of it or add to it but not contradict it.

Director of Finance Navazio: It is also helpful to clarify Board policies so that it is not internally inconsistent because that same policy has language in it that talks about capitalization thresholds applying to groups; no need to argue.

Audit Committee Chairman Tulloch: Perhaps you can send us that reference as he is not aware of it and if he has missed it in the policy, he will be the first to apologize.

Timing and Accounting of expensing of CIP Budget items

Audit Committee Chairman Tulloch: He has not worked with or is familiar with other organizations where expense items are put into the capital budget and he is interested to hear Staff's comments.

Director of Finance Navazio: This has to do with two things – timing on review of items and the auditors recommend that we do when we are recording these items and not at year's end so that has been addressed and the second part, which has been discussed at length, for fiscal year ending June 2021, those items were still in special revenue funds and then he referred back to the memorandum.

Audit Committee Chairman Tulloch: Addressed means recorded as they are incurred?

Director of Finance Navazio: Correct.

Audit Committee Chairman Tulloch: Violation of GAAP and GASB, need to check it, but it does violate common sense and it is not a leading practice.

Audit Committee At-Large Member Dobler: It does violate GAAP and GASB and he explained his theory.

Investment income

Audit Committee Chairman Tulloch: Said it remains a significant concern as evidenced by public comment and that it has been modified for 2021/2022 so if there is something further here, please so state.

Director of Finance Navazio: It has been discussed, folks are welcome to their opinion on what was done and why, historically it was credited to the fund that made the investment but it will change for this year going forward.

Audit Committee Chairman Tulloch: What he takes from that is that this was the practice and that you have changed the practice.

Director of Finance Navazio: We have changed the practice, we don't believe what was done before was incorrect, but we have changed the practice.

Audit Committee Chairman Tulloch: So if he is hearing him correctly, you have changed the practice twice, you changed it and now you have changed it back.

Director of Finance Navazio: No, we are now allocating all interest earnings to funds based on available cash under accrual cash concept.

Audit Committee At-Large Dobler: Read from Board minutes and said he knows that a correction has to be made and he doesn't like that \$500,000 went to the General Fund because you don't know what the accounting is but he wants to know about the bigger question and that is that Staff is making a false statement because you can't justify that you allocated that interest properly. There is no rhyme or reason and he showed you all the General Ledger accounts, you set in my home, and we went through it all. He doesn't know if it is legal or not but the reality is that you didn't do it right so what is the problem doing it right as that is what he wants to understand. Do you want to get more money into the General Fund because the District General Manager needs a raise – he doesn't know. What he does know is that this interest was earned by revenue in the Community Services and Beaches and that is where it belongs and there is no reason that we can't make that adjustment.

Audit Committee Chairman Tulloch: Asked that the last remark about the District General Manager's raise be struck.

Audit Committee At-Large Member Dobler: That is just sarcasm.

Audit Committee Chairman Tulloch: Understood and perhaps the Director of Finance can clarify as he actually heard two different things – what he heard was previously the interest was applied based on the money within the funds and that you thought it was better divvying it up differently but now it has been changed back for 2021/2022 – is that correct or did he hearing that incorrectly?

Director of Finance Navazio: He hopes you heard it incorrectly; all he is saying is that historically, prior to this fiscal year, the District purchased investments and each fund that bought that investment was credited with those interest earnings. Funds that were not invested, were not credited with investment earnings. What we are doing now is we are making investments irrespective of fund or funding source so that all of the pooled cash available to invest is credited interest and allocated based on each fund's contribution to the pooled cash. So that is the change that has been made, that's the way he has always allocated interest earnings in local government for 28 years and had never seen it done the way the District has previously done it.

Audit Committee Chairman Tulloch: Forgive him if he is being still slow on this, he just wants to be sure because it is a topic of extreme interest based on public comment, so if he is hearing you correctly this time, up until this year, it has always been divvied up in various different ways and not divided up proportionally to the funds that have been providing the investment funds but now to be clear, and be clear to the community, now the investment income will be credited to the based on the holdings in the funds which he would have thought was a normal best or leading practice but he just wanted to clarify that so in the past it has always been divvied up by however the Finance Team or District General Manager in the past how it should be divvied up and is that correct?

Director of Finance Navazio: Well not that but the Golf Fund owns an investment, the Utility Fund owns an investment, and the General Fund owns an investment, those funds got the interest. What we are doing now is we are investing based on pooled cash, there is no fund assigned to the investment, and when we get the interest, all the District funds benefit proportionally from the earnings on dollars invested.

Audit Committee Chairman Tulloch: Said based on the investment so if he invests \$2 million and you invest \$100,000 then we pool our investment, he would expect to get the interest based on the \$2 million so perhaps you can explain why this didn't happen in the past year?

Director of Finance Navazio: What happened in the past is that there are funds sitting in an operating account receiving next to no interest and there are funds that are buying securities and bonds and investments that are earning interest. So the interest that was earned was only applied to the funds that "purchased" the investments not funds that were not invested.

Audit Committee Chairman Tulloch: So the working capital sitting in the operating fund wasn't attracting investment income, is that correct? Or was it attracting interest earned by the funds that actually had funds invested?

Director of Finance Navazio: To the extent we are earning interest, yes and correct.

Audit Committee Chairman Tulloch: Said he is sorry for dragging this on but he wanted to make sure that he understood it correctly based on multiple public comment and various notes he has been getting privately.

Trustee Schmitz: Well, actually after that discussion, she is going to belabor it a little bit more. So she just wants to make sure she is understanding and asked the Director of Finance to bear with her as she is just trying to understand. In the past, we had investments that were by fund. So, if the Utility Fund had a few million dollars, the interest income went to the Utility Fund, if Golf did then Community Services, it went there. When did that change? When did that methodology change?

Director of Finance Navazio: It changed this fiscal year and we did a year to date true up, for all investment earnings earned this year, effective July 1, interest earned this year is being allocated to those funds based on investments by those funds.

Trustee Schmitz: Ok so she still didn't get an answer to the question she doesn't think – so what she understood you to say is that was until our prior fiscal year was just audited until that fiscal year each of the funds were receiving their proportion of investments income that only this last fiscal year is when it changed. That is what she heard you say but she is not sure that is correct.

Controller Martin Williams: So what was going on historically, a fund would have \$5 million sitting in its operating fund.

Trustee Schmitz: No, we understand it and we just want to know when did it change? When did it change?

Controller Williams: We changed it from that methodology to a pooled investment methodology as of July 1. It had not changed for as back as we can tell.

Trustee Schmitz: So why is it, if that's the case, then why in the ACFR that we just audited, we had an investment income going to the General Fund that was disproportionate to the funds that the General Fund had compared to Community Services?

Controller Williams: Because the General Fund had invested a greater portion of its cash therefore was no longer an operating account.

Audit Committee At-Large Member Dobler: That is absolutely untrue.

Trustee Schmitz: So here is what she is trying to get at and here is the bottom line of where she is going with this questioning – all she wants to understand is what is the magnitude of the number of years if we wanted to true this up and get this squared away, how many years is that it is spanning? It sounds like it is only the last ACFR and if it is something more than that, then the answer isn't that it was that and it is this ACFR that was the first time it was ever done that way. So all she wants to know is what is the magnitude and what is the impact of getting this trued up retroactively?

Controller Williams: He doesn't know that number, he can't tell you how many years they did it historically in the other method, he can look that up for you if you want as he doesn't have that answer for you right now. But he can tell you that if they went back and did the research, he took Audit Committee At-Large Member Dobler's research and went through it and did any analysis of it and he noticed that the difference between how we did it and how a pooled investment that following the same logic, was not a material adjustment.

Audit Committee At-Large Member Dobler: You only did it on the Operating Accounts and you didn't do on the Investment Accounts. You cannot sit there and say you have one account at the State with \$13 million in it and all of that return is going back to the General Fund and say you are allocating it properly; he means enough of this as it is absolutely nuts. You don't understand your accounting or whatever but there is one account at the State, not including the Utilities and two other accounts for TRPA and the other one is the Forest Service, and you have one account with \$13 or \$14 million in it and every dime that is earned on that account is being dumped into the General Fund and it is impossible that all that interest that is earned is the General Funds because they only have a quarter of money. Enough of this, this is a dance and he thinks we have better things to do and it was incorrect, improperly recorded, and you are sitting there saying you did a true up and you did that on your bank accounts, not on the investment account and we have got it in the minutes and we have got it in the Board packet. So knock this off, please.

Trustee Schmitz: May I ask one follow up question that she didn't get to ask the Controller or the Director of Finance? The fund balance in the Utility Fund is very concerning and as it relates to this issue about investments income, did the Utility Fund always get its proportionate and its adequate interest income as a fund because if the Utility Fund investment income was going somewhere else, that's a problem that we need to fix for the Utility Fund.

Audit Committee At-Large Member Dobler: There is a separate account at the State for the Utility Fund so that's not an issue.

Director of Finance Navazio: Actually that's not where all of the Utility Fund is so it's more complicated.

Trustee Schmitz: So you understand my question and understand my concern.

Audit Committee Chairman Tulloch: Something that Controller Williams said leaves him rather confused; when Controller Williams said that this year you are pooling all the funds so you are pooling funds, where there is working capital, and so basically it is what should be in the General Fund, rather than investment funds so funds that aren't actually investing are receiving interest income because that is a little bit concern and that's what seems to be happening. He too, from Director of Finance Navazio's first statement, that the investment income is going back only to the funds that are investing.

Controller Williams: We are taking all investments as District-wide investments. They are not investments for the Utility Fund, they are not investments for the General Fund, and they are not investments for the

Recreational Fund. It is District level investments and we are allocating the interest generated on those District level investments based on the cash that fund has. Be it investments, cash or LGIP; their total cash amount, a percentage of that for the District-wide cash is the amount of interest they are getting. That is the methodology that we are using for the current year.

Audit Committee At-Large Member Dobler: For the current year, not the past year.

Controller Williams: Historically, that is not the methodology that was used for past years.

Audit Committee Chairman Tulloch: So this problem that was addressed in public comment has gone on for multiple years?

Controller Williams: Again, he cannot tell you for how long it has been going on but that he can look it up for you as he doesn't have that number for you.

Audit Committee Chairman Tulloch: If Staff could have that for the next Audit Committee meeting as we have spent a lot of time on this as it is obviously a point of contention and that basically what we have highlighted with the public comment is the unfairness of the allocation in the terms of that and regardless of what it was for.

Director of Finance Navazio: He wants to come back to Trustee Schmitz' because this came up before and we made an adjustment, in the Utility Fund, and adding to the money that the Board had reserved and adding interest to that reservation. He will go back and just confirm how far back we went with that interest earning allocation and it is his sense that we actually allocated, in that context, is that we credited for the pipeline it's "proportionate" share. He is going to go back and look at that to determine how far back Staff went as he thinks it was around \$700,000 that was added to the fund balance and reserves.

Audit Committee Chairman Tulloch: That was as a result of a Board motion?

Audit Committee At-Large Member Dobler: Let's stop conflating two different issues.

Controller Williams: That interest was based off the money, the \$2 million that was collected each year, towards the Effluent Pipeline.

Review of items capitalized in the FY2020/21 financial statements

Audit Committee Chairman Tulloch: This item seems to overlap with item 9 (*Timing and accounting of expensing of CIP budget items*).

Trustee Schmitz: May she back up for a second? The Director of Finance brought up a really good point and what she is remembering was that this

interest was transferred into the Utility Fund because we had a policy that said funds that were allocated for a project/reserved for a project, and weren't the expense, that any of the interest got credited to that fund. We have a policy that says that. Do we need to have a policy that explains how investment income is allocated? She doesn't recall that the Board has one. Is that something that should be drafted so there is clarity and consistency?

Director of Finance Navazio: It could very well be however he would say that if there is a policy or policy language that is related to investment earnings it would be most important to incorporate that into the District's Investment Policy. He needs to check it to see if it speaks to the allocation of interest.

Audit Committee Chairman Tulloch: Please check on that to make sure that we are contributing to another policy.

Audit Committee At-Large Member Dobler: He would like to know if we are going to make a recommendation to the Board on this and Item 9 because we would like to get this stuff cleaned up and to what it is now. It is about time to get it cleaned up. At what point does it end and why don't we just do it right?

Audit Committee Chairman Tulloch: Right.

Recording of Facility Fees in the Statement of Activities

Audit Committee At-Large Member Dobler: This is inferring that a member of this Committee made that decision and no, no, no, no, we got it right out of the Moss Adams report. And again, the Moss Adams report was to clarify all these issues that have been outstanding for years, Moss Adams came back, we agreed with it and it says in the report that the Facility Fees are considered enough of an exchange transaction that it should be as charges for services in the Statement of Activities. That came exactly from Moss Adams and the inference that this came from the Audit Committee, we are not making that action, that's what Moss Adams said.

Audit Committee Chairman Tulloch: He would agree with that. So the Facility Fee is a non-exchange transaction so the community gets nothing in exchange for the Facility Fee?

Director of Finance Navazio: That's not the definition of a non-exchange transaction.

Trustee Schmitz: When we decided to spend the money as a Board and as an Audit Committee, on Moss Adams 1, it was a big decision, it was an important decision. This particular issue relative to Facility Fees was Moss Adams 1 and in Moss Adams 1 we did receive a recommendation but what was important, to her anyway, is that as an Audit Committee and as a Management Team, we all sat down and agreed before we ever engaged

with Moss Adams for Moss Adams 1 that we were all going to accept what their recommendations were and we were going to take their recommendations, issues were going to be put behind us, and we were going to move forward. What has happened is that this is one of the recommendations that came out of it and, Director of Finance if she is wrong, please correct her, but she guesses that she is a person of her word and that if she says that if this is what Moss Adams recommends that she is going to implement it, she is going to be a person of her word and there has been a couple of items, and this being one of them, that was in the Moss Adams 1 report and it isn't being incorporated. For her, that is a little bit of the rub. We had a lot of issues and Audit Committee At-Large Member Dobler had issues and he was willing to accept Moss Adams 1 and he let things go. That was the purpose of it. We have things that they have recommended and Management has chosen not to adopt them and she thinks that's what's causing the underlying tension, she feels anyway.

Audit Committee At-Large Member Dobler: Let's put it this way – he thinks that Moss Adams covered four areas and this was one of them. We got an expensive report that was well thought out where community was involved, many meetings on it, working on it for the better part of 6-7 months, and a very well written report that defines it. We were satisfied with it, as a citizen as he wasn't on the Audit Committee at that point in time, and we had expected it to get done. It was brought forward to the Audit Committee, he guesses at the time he might have been on it, we accepted that and he just has a problem that we want to play yo-yo bookkeeping here. The idea of doing the report was to satisfy and get these off the table that has been an issue for 4 or 5 years. Then what do we do, we do something different. Now, you can say all you want that the previous auditors said this, that doesn't matter because there is nothing specific about GAAP there, it is a judgment call again and the judgment call was made final by Moss Adams so he thought but here we go; we aren't going to agree with that because we don't want to.

Audit Committee Chairman Tulloch: Said it was his understanding that this was what Moss Adams did and the way it was carried out, with input from all different parties, that would normally fit his definition of best practices. This appears to be a best practice that has been rejected. He shares the confusion.

Trustee Schmitz: She did misspeak as she has the report in front of her - Moss Adams 1 was the contract evaluation, she misspoke as Moss Adams 2 was for all the accounting things from the Audit Committee so she was incorrect when she was referring to Moss Adams 1 previously.

Controller Williams: He is looking at the Moss Adams report and he sees nothing about the Facility Fees.

Director of Finance Navazio: It is on pages 61 and 62. It is in the punch card accounting because there was an issue about the slop of the punch card allocation and they made a comment on page 62 which he then read.

Audit Committee At-Large Member Dobler: He thinks it is really pages 23 and 24 of the report and that the numbers you are quoting is the packet pages but in their actual report it is 23 and 24.

Director of Finance Navazio: Confirmed he was looking at the Board packet.

Audit Committee At-Large Member Dobler: You will find that it is very crystal clear, very well thought out, well described and there should be no issue here but we are making an issue out of it because of, he guesses, stubbornness. He doesn't see any reason why it would make a difference other than doing it properly.

Audit Committee Chairman Tulloch: We agreed to accept them and that is not up for debate here and if that is a case of politics and this is a clear message to the community, with primary elections coming up, making sure that when candidates are promising things that they actually live up to what they are promising. Take that as a public service message.

Compliance with Board Policies

Audit Committee Chairman Tulloch: It is binary or non-binary; if you are not complying with company policy, you have a choice.

District General Manager Winquest: We are doing everything we can to ensure compliance with Board policies and yes, there has been a few issues. Have been able to clarify to ensure there is no little to no ambiguity. Don't think it is a good idea to not have a negative conversation here.

Audit Committee Chairman Tulloch: Understand that the Board has delegated that responsibility to you.

Maintenance Expenses reflected in Capital Budget

Director of Finance Navazio gave an overview of this issue. Audit Committee At-Large Member Dobler refuted the overview. District General Manager Winquest asked that this conversation be stopped as it is a false statement. Audit Committee Chairman Tulloch asked if there is a project in the CIP is the \$1 million for operating being added to their budget? Director of Finance Navazio said if there is a project that has a budget of \$10 million and \$1 million we are going to expense and \$9 million to be capitalized and at the end \$9 million would be capitalized when construction. It is tracked separately but you may see some combined. Audit Committee Chairman

Tulloch said the question wasn't answered. Director of Finance Navazio said the answer is that it depends. Audit Committee Chairman Tulloch asked his question another way. Director of Finance Navazio answered the question and that maintenance and repair is covered Board Policy 12.1.0 and the practice has been consistent with Board Policy. Trustee Schmitz said she asked this same question during the Budget Workshop; what she was told was that the reason budgets have increased for services and supplies is because the expenses are being budget there. That's why services and supplies is looking so much larger. What she would suggest that we have one budget that is truly capital improvement and another budget that is capital maintenance. This would make it transparent. Director of Finance Navazio said that was mostly accurate and added further explanation. Trustee Schmitz suggested calling them something different for clarity and transparency. District General Manager Winqest said that all Staff are aware of this change. Trustee Schmitz said this explains to her why the services and supplies budgets increased significant across the board. Audit Committee At-Large Dobler said you need to look at capital maintenance and that is the wrong terminology. Trustee Schmitz said that our memorandum should include an executive summary so the Board knows where to focus and so they know where we need their direction. Trustee Schmitz asked if we covered the items that were moved up; Audit Committee At-Large Member Dobler confirmed that yes, mostly.

Audit Committee Chairman Tulloch called for a break at 8:04 p.m. and the Audit Committee reconvened at 8:10 p.m.

D.2. Review and discuss 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 (Requesting Audit Committee Member: Audit Committee Chairman Raymond Tulloch)

Audit Committee Chairman Tulloch asked the Director of Finance Navazio and Controller Williams to provide a brief overview of the submitted materials. Audit Committee Chairman Tulloch asked, if on item 2, was this being done on a monthly basis? Controller Williams said we are doing some every month and making sure we are getting through everything once a quarter. Audit Committee Chairman Tulloch asked if this covered CIP's? Director of Finance Navazio said yes. Audit Committee Chairman Tulloch asked what changes have been made on Item 3? Director of Finance

Navazio said we have made some updates to our procedures against NRS and our policies. This was discussed with our auditors and noted that the NRS has a long list of exceptions. Part of what Management Partners is looking at is further modification of our policies which might lead to a competitive bidding scenario even if the NRS does not. We have worked hard to match up with the NRS and policy. Audit Committee Chairman Tulloch said so this is an example of where Board policy can impose tighter restrictions than the NRS? Director of Finance Navazio said yes. Trustee Schmitz said, to bring closer to that discussion, as it relates to vendor contracts, Moss Adams had recommended a year and a half ago or so that the District develop policies for professional services and she thinks this ties in with that as well. Categorically, she doesn't want to go into it tonight, but categorically could the Audit Committee please review these updates as part of our activities again going back to Board Policy 15.1, paragraph 2.6, which we talked about at the beginning of the meeting and that is when we have things that are being updated to allow the Audit Committee the opportunity to just review those and she thinks that is something that Staff has updated for 2, 3 and perhaps for 4 and 6. She would assume that there are HR procedures that are executed instantaneously upon a change of someone leaving in both the signature card and the systems. She understands that this is a separate quarterly review to make sure those things are happening but she thinks it would be important to see that we have HR procedures that when employees depart or Trustees depart that things are identified and are part of the exit process so to speak. The other comment she has, in 2, is isn't the other exception, besides the General Fund, Internal Services? Director of Finance Navazio said those are proprietary funds as they are business activities. Controller Williams said Internal Service is a proprietary fund but it is not a business activity. Trustee Schmitz said so we have this investment income and she did quickly review the investment income policy and practice and it does not have any language that she could see that talked about allocation of interest income so that might be an enhancement that we want to incorporate but on 7, this is talking about environmental controls, and she doesn't know if it is acceptable to add it but it might be worth saying that even though we don't have a fire suppression system, she does believe that we have offsite back up of a number of things and it might be worth adding that as a little bit of comfortable to the fact that we are saying we are not going to be putting the fire suppression system. Controller Williams said he sees the point being made and he explained that this comment, by the auditors, was actually more directed to the servers rather than the data. Director of Information Technology Mike Gove said we do have a mirror image at another location; we do have a hardware and data

backup however it will not be instantaneous. Trustee Schmitz said that she feels that would be important to add for comfort and note that it is not instantaneous. Audit Committee Chairman Tulloch said that was his understanding and that servers are inexpensive and certainly less expensive than a fire suppression system. Audit Committee At-Large Member Dobler added his opinion and summarized that these are just words and that they don't mean anything. Audit Committee Chairman Tulloch said he would ask Staff if there has been some pricing work done on this item? Director of Information Technology Gove said he can't speak to that question rather it would be a question for our Buildings Team and noted that the entire building would likely need a fire suppression system as it presently has none. Director of Finance Navazio, Trustee Schmitz and District General Manager Winqest made follow up comments and Audit Committee Chairman Tulloch closed this item. Audit Committee Chairman Tulloch said on 4, he thought we talked about doing that more regularly? Director of Finance Navazio said the auditors made the recommendation of at least annually and that there are only a few people that have signature authority on our bank accounts. Audit Committee Chairman Tulloch said on 5, this one kind of disturbs him and it is regarding the temporary meter. Director of Finance Navazio said Staff is looking at this from a cost benefit analysis perspective and noted that our process is similar to other like agencies. Audit Committee Chairman Tulloch said charge them and the developer should be responsible for all the costs. Director of Finance Navazio said there has been no issue with this in the past. Trustee Schmitz asked why don't we charge them? Director of Finance Navazio said we do charge them and it is a security deposit; Staff is looking at what makes sense given the very few transactions that occur and the 100% return rate. The auditors were worried about the checks going stale. Controller Williams said that at the time of the audit, there were 4 checks and those people were called and the meters were returned so there are no checks being held. Trustee Schmitz asked what was the outstanding issue for the auditor? Director of Finance Navazio said it was about the check going stale and they were suggesting the checks be deposited and that when the meter was returned, a check be generated for the deposit. Audit Committee Chairman Tulloch asked what the charge was for? Director of Finance Navazio said Staff will double check. Controller Williams said the check was security to ensure return of the meter but they were being charged for usage. Audit Committee Chairman Tulloch said on 8, which he read, and summarized that funds are getting credited for working capital. Audit Committee At-Large Member Dobler asked if all checking accounts were interest bearing? Controller Williams said yes and explained how things were invested. Director of Finance Navazio said he will follow up with

the Audit Committee Chairman offline. Trustee Schmitz reiterated that the policy and practice need to be reviewed to incorporate all of this. Director of Finance Navazio added a couple of other items where changes need to be made. Trustee Schmitz asked if this was going to be reported to the Board? Director of Finance Navazio said the Board is probably due for another update on investments.

D.3. Review and discussion of Moss Adams Report recommendations on capitalization and comparison with revised capitalization policy (Requesting Audit Committee Member: Audit Committee Chairman Raymond Tulloch)

Audit Committee At-Large Member Dobler said this was the report on 4 items; he has nothing to say here because he doesn't know what the policy looks like. Audit Committee Chairman Tulloch said that there were changes in the policies that don't align with the Moss Adams report and asked Staff to explain. Director of Finance Navazio said the material included in the packet is the Moss Adams report and it is financial accounting report and the matrix that is on agenda packet pages 77-81; two items on this agenda and the capitalization policy is on agenda packet pages 71-74. Audit Committee At-Large Member Dobler asked if these policies were approved by the Board without the Audit Committee seeing them as isn't that part of our charter to have some oversight – kind of confused. Director of Finance Navazio said we have been working on policies with the Board for over a year and shared with the Board as a result of the Moss Adams report, specifically 1.0, we needed to update some policies and shared with the Board, on 3 separate occasions, the approach on updating the capitalization policy which Staff took the lead on. We did ask Moss Adams to review and provide feedback on the capitalization policy, they did that, and incorporated modifications that were brought back to the Board. Came up with some additional language that was shared with Moss Adams and now included in this packet is the approved policy by the Board. Audit Committee Chairman Tulloch asked a question about the golf carts and them being grouped and capitalized? Trustee Schmitz said that is how you explained it to her. Audit Committee Chairman Tulloch said look at 7.3; the Controller can decide. Director of Finance Navazio identified that specific old policies and a procedure was woeful inadequate therefore this capitalization policy used a template that followed GFOA best practices. Staff went through and looked at the specific sections and the thresholds along with other sections which Director of Finance Navazio cited. Staff took into consideration items from Moss Adams. Audit Committee Chairman Tulloch asked if offline he could

show him the meeting minutes. Trustee Schmitz said that she and Trustee Dent expressed concern at the Board meeting and shared those concerns raised. She found some of the examples from Moss Adams to be very detailed and good policies and had the Audit Committee been involved, she would like to have seen included. There are some things that Moss Adams suggested and there still seems to be some vague language. This is a really good start but there are some additional enhancements that are needed to meet what Moss Adams had chartered us to do. Audit Committee At-Large Member Dobler said that Moss Adams was to help us create policies on capitalization, we have the policy in here and have a lot of red in it, on agenda packet page 76, Moss Adams said you didn't put a lot of stuff in the draft; don't get the redline – what the hell is it? Was this a late arrival? Trustee Schmitz said that this is the version of the policy that the Board approved at our meeting, red to identify the changes were made, she feels remiss because in December, she and Trustee Dent should have recommended it come to the Audit Committee for review. Audit Committee At-Large Member Dobler said then reviewed agenda packet page 76 – are we going out and play the pick and choose game with the consultant as that is what it looks like to him. Director of Finance Navazio said Moss Adams got the draft in August and then he recapped the timeline forward and explained what the redline was. Staff incorporated the changes recommended by Moss Adams and also shared with accounting procedures for disposal of assets, etc. Staff walked Moss Adams through where in the accounting procedures these items are included. Audit Committee At-Large Member Dobler asked if there were references included in the policy; Director of Finance Navazio pointed out the references. Staff worked to include all the information from Moss Adams in the policy or pointed out the procedure document to them. Audit Committee Chairman Tulloch said so you have accepted the Moss Adams recommendation in totality or partial? Director of Finance Navazio said we took all of their recommendations and we may have revised the wording as we did not ask them to write the policy. Trustee Dent said that the draft that Moss Adams saw was very preliminary and that Moss Adams didn't see this draft and he feels like if we are paying a consultant, they should see the final version. He didn't vote in favor of this and he feels like he could have handled this differently by having Moss Adams involved all the way through. Audit Committee Chairman Tulloch said that would have been best practices in his client recommendation. District General Manager Winqest said that the statement about that they only reviewed the preliminary draft is false as they were very involved with the process. It is true that Moss Adams didn't review the final final and they reviewed most of what was in there. Trustee Dent said what it comes down

to is that we have to trust what you are saying and that's what it comes down to. Trustee Schmitz said and the biggest language that we have is this 2.1 and 2.1 was added very late and that is the problematic language that was incorporated. Director of Finance Navazio said and that was reviewed by Moss Adams and this is language that they gave us feedback on. Trustee Schmitz said that they said they never say this so it is he said, she said and in reality, as an Audit Committee, she just wants to know that we are doing the right thing and that when we hire consultants to give us advice that we are actually incorporating it and that this is an area that has been concerning and, in hindsight, it would have been great to have the Audit Committee participate in the review of the drafts of this and it is unfortunate that it hasn't happened because there is value that could have been added to improve things and at this point, it has already been approved by the Board and this is the policy. But, as an Audit Committee, she thinks it creates a challenge for us because she doesn't know how we will use this policy to ensure that our financials are being reported consistently as it relates to how things are decided to be capitalized. Audit Committee At-Large Member Dobler said that this seems like a rush, rush and the whole idea of expanding the Audit Committee to get at-large members that have good business experience to help the District in doing things better and when we run into a collision course of \$4 or \$5 million or \$5 or \$6 million that gotten written off, maybe we should have had a little discussion on it because he thinks that the Audit Committee Chairman and he are pretty smart guys so at any rate, he doesn't get and that is all he has to say. District General Manager Winquest said this has been literally a 3-hour interrogation of his Staff and he understands why Trustees Dent and Schmitz aren't very happy that Moss Adams didn't get to do a review of this document and Staff will ensure that a review is included in the scope of work and moving forward if you are willing to work with Staff and listen to our point of view, we are happy to bring these policies to the Audit Committee for their review. Audit Committee Chairman Tulloch said if you think this is an interrogation then he can assure you that you have never experienced a full on Audit Committee. Yes, Staff would love the Audit Committee to work with it but to be fair if Staff just says we don't disagree without having backup documentation, it is quite difficult so he understands that you should be looking after your Staff which is what you should be doing equally the Audit Committee functions as an Audit Committee and it has a role to play as well. All we are doing is asking questions and yes, we have concerns about things and we should all be working together. The Audit Committee can't control what the Board does. The Audit Committee can only perform its duty of oversight and if the Board wishes to dispense with oversight then there is not a lot the Audit Committee can do about it but we

would be failing in our duties if we didn't provide these recommendations to the Board. Trustee Dent said one other reason that he was not in support of it is that Legal Counsel had not reviewed the policy prior to it coming to the Board for approval. He did ask that question of Legal Counsel and it is in the meeting minutes from January 12 and that is what he said on the record and that was that he had not reviewed the policy prior to it going into the packet. Director of Finance Navazio said he would add that when Staff asked him if he needed to review it, this is not a legal matter. Audit Committee At-Large Member Dobler said everything is a legal matter when you are handling people's money. Audit Committee Chairman Tulloch said we can't relitigate the past and said, on 3.2, like you, he is not a CPA but on recording an asset you are showing a balancing entry. Controller Williams said yes, you are recording a donation entry. Audit Committee Chairman Tulloch said on 5.4, he would strongly object to the title and he has one other issue in 6.1, can you clarify the last sentence which he read? Director of Finance Navazio said after a project has been defined, have scope, cost and a funding plan and costs going forward will be capitalized and not feasibility study. Audit Committee Chairman Tulloch said maybe a cleanup of the language would be appropriate here. Trustee Schmitz asked what are we trying to accomplish here as this policy has been Board approved so what is the Audit Committee requesting and accomplishing? Audit Committee Chairman Tulloch said it is about clarifying ambiguity. Trustee Schmitz said we can discuss it and say something should be clarified and if Management isn't interested, this is a waste of our time. Rather say as Audit Committee this is going to create a challenge for us and move forward. Audit Committee Chairman Tulloch said he would ask the Audit Committee how it would like to move forward. District General Manager Winquest said there are two options – work with this for a year and see how it goes and that we have to find a way to work together. Audit Committee Chairman Tulloch said his personal view is that there are few things that should be cleaned up and put it forward to the Board as the Audit Committee has no authority to do so. District General Manager Winquest said cleaned up so it works for everyone. Audit Committee At-Large Member Dobler said he has a 5-year history of capital projects side by side comparison and one exhibit will cover 90% of the situation as you are buying the same stuff over and over again. Audit Committee Chairman Tulloch said he will defer to the committee for action. Audit Committee At-Large Dobler said he would like to define capital assets better and get a list of them and say you will capitalize this and you won't capitalize that. Audit Committee Chairman Tulloch asked if that was a general agreement? Trustee Schmitz said that one of the policies she reviewed defined capital asset as an intangible asset and some of these

other policies had good definitions and substance and she would really like for all of us to take a minute and review those. She did share it with her fellow committee members and make some recommendations. She doesn't know how interested the Board is, we can go through the effort as it is probably our responsibility to that to put forward some things that we would like to see enhanced but she is just 1 member of the committee. Trustee Dent said he would tend to follow whatever his fellow colleagues on the committee bring up on modifications or recommendations or suggestions to go to the Board of Trustees on a way to move forward. There were a couple of other things that he in the language like typically and maybe where we can clean up this policy to make it a little more concrete. Audit Committee Chairman Tulloch said he will work with the Director of Finance to review some of the wording over the next few weeks and then we can review with a preferred recommendation coming jointly from the Audit Committee and Staff.

D.4. Review and discussion of actions taken in response to recommendations in the Moss Adams report on policies and practices (Requesting Audit Committee Member: Audit Committee Chairman Raymond Tulloch)

Audit Committee Chairman Tulloch said he thinks we have already covered this item.

D.5. Review, discuss, and determine if action is required for the following correspondence and memos received by Audit Committee regarding: (Requesting Audit Committee Member: Audit Committee Chairman Raymond Tulloch)

- a. Charge off of expenses which have been included in construction in progress
- b. Incline Park Facility Renovation, Project#4378LI1801, Final disclosure of the close out of the Memorandum of Understanding ("MOU") with Incline-Tahoe Foundation regarding construction of the project (*carried over from the June 9, 2021 Audit Committee meeting*)
- c. Golf Courses Irrigation, Greens, Tees and Bunkers, etc. Expenses rather than Capital Assets (*carried over from the June 9, 2021 Audit Committee meeting*)
- d. Review reporting and use of Facility Fees (*carried over from the June 9, 2021 Audit Committee meeting*)

Audit Committee Chairman Tulloch said 5.a. and 5.d. has already been covered. Audit Committee At-Large Member Dobler gave an overview of the remaining items. Trustee Schmitz said that Audit Committee At-Large Member Dobler did a lot of hard work and that she did try to understand and found a couple of things so it is good to know that once in a while that Audit Committee At-Large Member Dobler can be human. She understands this is in the past but when she reviewed this, there were a couple of things that just jumped out at her. The first thing was that there was a change order that was executed prior to the contract being executed. Well, you can't have a change order to a contract before you have a contract so that is a contract administration situation/mistake. What she was noticing was what was the management cost of managing the project and it seemed like there wasn't a clear handle on the costs of the project; it was found that \$75,000 was charged to a different project code so she thinks that her recommendation is that out of the Moss Adams 2 report, actually this is Moss Adams 1, it was that we needed to have project closures and to have a clear project closure report. She thinks for this project it would be worth the time to do that because Audit Committee At-Large Member Dobler has already got things laid out and the reason for doing that is, first of all, ensure that the proper projects were charged for all of the costs because that was an issue and to understand what truly was the total cost of the project because now you have additional charges and how much was billed and potentially if there is anything that the District needs to go and do additional billing for. She appreciates Audit Committee At-Large Member Dobler's efforts and the amount of detail and information put together here and in reviewing it, she thinks that this is one where it is worth it because the District is potentially due some additional funds and she thinks it would be good for our current Staff to go and do a project closure so they can understand how things were done in the past and ensure that our new procedures would never allow a change order to come before a contract and that truly projects are being managed and costs are being charged to the proper bucket so that really, in a nutshell, is her recommendation and that we do a project closure report. Audit Committee Chairman Tulloch said that the purpose of these correspondences is not a witch hunt or anything rather just to see what we can learn from it. District General Manager Winquest said he has gone through everything with Staff to ensure that we have gotten everything that we have spent and it is really hard to go backwards but we can try. On the change order, he does agree that should it have been handled differently and our previous District General Manager did authorize a conceptual design which was authorized under his authority. There was item about

underground analysis which was not paid for by the donor. There were 3 or 4 items that were charged off to Parks that weren't in the original scope that the District decided to pay for. There is plenty to learn from this project. For the Recreation Center Expansion project, he has emphasized the need to be really tight. He has seen that we have been reimbursed for every dollar that was due. Trustee Schmitz said that she is not arguing with the District General Manager but that she still feels that this whole concept that Moss Adams, in their recommendation, was to do project closure reports. She does think that doing things in writing and doing a project closure report on this is not a very time consuming activity and that it is very important because then you actually have the paper trail to show that we do everything according to what we said we would do and this is well laid out and verified by her by adding the numbers. District General Manager Winqest said he has looked at this, he will work with Staff and it does take more time than you think. Trustee Schmitz said she is willing to help and she will be write a 1-page Executive Summary. District General Manager Winqest said it is a very confusing project as we went out to bid, too high, went out again and then had to value engineering the project. He hasn't seen anything to indicate that we haven't been reimbursed. Audit Committee At-Large Member Dobler said that we are over by about \$400,000 and it is a pretty snapshot of how weak we are in internal controls and the Board that rubber stamps everything needs to see it. District General Manager Winqest said that the donor was in the know on everything on this project. Audit Committee Chairman Tulloch said it is the process that has been highlighted and not asking to go to the Board as an item. A project closure is a standard process and as long as a project closure report is on your agenda, that's the point.

Audit Committee At-Large Member Dobler gave an overview of Item 5.c. Audit Committee Chairman Tulloch said it goes back to the capitalization project. Trustee Dent asked Staff, as it relates to the upcoming budget workshop, are we bringing down the services and supplies; break them apart for maintenance? Director of Finance Navazio said what we are in process of doing is establishing a separate account code to distinguish these items from what had previously been in that budget. There will be a specific line item that we can point it but not bringing a line item budget on March 1 as that is further down in the process. Trustee Dent said so it will be differentiated? District General Manager Winqest said so you are asking about repairs and maintenance – yes, we will be separating that out. Audit Committee At-Large Member Dobler said that is a dangerous thing to do because you are mixing them as there is no reason to put them together.

District General Manager Winquest said we are going to separate them out. Audit Committee At-Large Member Dobler said they are repairs and maintenance and shouldn't be in the capital budget. They are two different things. Audit Committee Chairman Tulloch said he would concur as that is how every business has worked that he has worked with and asked that all committee members funnel long range calendar items to him so that he can added that to the next agenda. Audit Committee At-Large Member Dobler asked about his Burnt Cedar memorandum; Audit Committee Chairman Tulloch said he has it and was being respectful to the length of the meeting.

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

~~E.1. **Meeting Minutes of December 8, 2021**~~

~~E.2. **Meeting Minutes of December 16, 2021**~~

F. **PUBLIC COMMENTS***

There were no public comments made at this time.

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

The meeting was adjourned at 9:55 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.