

## MEMORANDUM

**TO:** Board of Trustees

**FROM:** Sara Schmitz  
Board of Trustees

**THROUGH:** Josh Nelson  
District General Counsel

**SUBJECT:** Review, discuss and potentially provide (1) amendments to Policy 15.1.0 to modify the term of Audit Committee appointments to expire in February and (2) direction regarding additional edits to Policy 15.1.0.

**DATE:** June 29, 2022

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### **I. RECOMMENDATION**

It is recommended that the Board of Trustees review, discuss, and potentially approve amendments to Policy 15.1.0 to modify the term of Audit Committee appointments to expire in February instead of June.

### **II. BACKGROUND**

Policy 15.1.0: Accounting, Auditing and Financial Reporting: Audit Committee Charter creates and outlines the Audit Committee. The initial implementation date of the revised Audit Committee Charter was July 1, 2020, with the Trustee and At-Large member terms aligned with the fiscal year. After two years of adherence to the revised policy, the timing of the appointments is not ideal in that new members are appointed after the engagement of the external auditor. To better align with the timing of the engagement, the delivery of the ACFR, and the year-end report from the Audit Committee, it is recommended the terms for the At-Large and Trustee appointments expire at the end of February with new terms beginning March 1 of each year.

At its May 26<sup>th</sup> meeting, the Board discussed modifying the expiration of the terms to have terms expire in February with new terms beginning in March. The Board did not take a position on the edits but requested that staff prepare draft redlines for consideration. These redlines are enclosed. If the Board wishes to modify the terms, it can approve these or similar edits to Policy 15.1.0. The Board should note that the draft redlines propose modifying the existing terms by extending them to the next February. The alternative would be to reduce the terms by having them expire in the February of the same year that they are currently set to expire.

In addition to these edits, the Board may also wish to consider additional edits to the eligibility for serving on the Audit Committee. As an example, the Board may wish to require Trustees members of the Audit Committee to have sufficient remaining time in their terms as Trustees to complete their term on the Committee. These edits could be

Review, discuss and potentially provide amendments to Policy 15.1.0 to modify the term of Audit Committee appointments to expire in February and potentially direction regarding additional edits to Policy 15.1.0.

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considered and discussed by the Board and potentially direct staff to prepare further amendments to Policy 15.1.0.

### **III. FINANCIAL IMPACT**

There is no direct impact from this item.

### **IV. ALTERNATIVES**

Not modify Policy 15.1.0 as discussed above.



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The Incline Village General Improvement District is committed to be proactive, informed, and to provide the highest level of financial accountability and transparency to its parcel owners and other stakeholders (i.e., the State of Nevada).

The Government Finance Officers Association (GFOA) encourages the effective use of an audit committee in the public sector and considers such a committee an integral element of public accountability and governance. An Audit Committee plays a key role with respect to overseeing the integrity of the District's annual financial statements (the "ACFR") by ensuring those responsible for financial management (Management and the Board of Trustees) meet their responsibilities for maintaining an effective system of internal controls over financial reporting. An Audit Committee is a practical means for a governing body to provide much needed independent review and oversight of the District's financial reporting processes, internal controls, and independent auditors.

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

An Audit Committee should be formally established by the Board of Trustees, be adequately funded, and be subject to a formally approved Audit Committee Charter.

**POLICY:** The Audit Committee (the "Committee") is to assist the Board of Trustees fulfill its responsibilities in accordance with Nevada Revised Statutes (NRS), District Policies, Practices, Ordinances, and Resolutions by providing oversight over the District's financial reports, the system of internal controls including the internal audit plans and reports, and the independent auditor's reports within the ACFR.

The Committee shall have open communication with and maintain strong working relationships with the IVGID Board of Trustees, the General Manager, Director of Finance, and the independent auditor.



## **Accounting, Auditing, and Financial Reporting Audit Committee Charter Policy 15.1.0**

This Committee shall review the Charter annually with any recommended changes submitted to the Board of Trustees for consideration and possible approval.

**ORGANIZATION:** The Committee shall consist of five (5) voting members. This includes two Board members appointed annually by Trustees and three members appointed by the Trustees to serve as qualified At-Large Members. Any recommendations for expanding the number of voting members will be recommended by the Committee and submitted to the Board of Trustees for possible approval. The Committee may retain financial or other appropriate advisors to attend meetings, provide guidance and training, as needed, and as approved by the Board of Trustees for financial expenditures.

Members of the Committee should have or shall obtain an understanding of accounting, auditing, financial reporting, and internal controls to be able, with the assistance of an advisor if needed, to deliberate on issues for which the Committee is responsible. Therefore, the Board of Trustees may need to budget for periodic training of the Committee members and an outside advisor to assist the Committee with the independent conduct of its work with the approval of the Board of Trustees. Any advisor so engaged should possess the following qualifications:

- A thorough understanding and experience with Generally Accepted Accounting Principles (GAAP), Government Accounting Standard Board (GASB) statements, and financial reporting
- Experience either preparing or auditing financial statements
- Experience with internal controls
- An understanding of the function of an audit committee

At-large Committee members shall be independent. They shall not accept any consulting, advisory, or other compensatory fee from the District. All members shall not be an affiliated person with the District and at-large members suggested qualifications:

At-Large Committee members shall be expected to comply with all District policies that apply to volunteers. District staff shall be responsible for providing copies of all relevant policies to Committee members.

- Annually, the Board of Trustees will appoint two Trustees to be Committee members. Appointing Trustees to serve successive years increases continuity and allows for knowledge retention. In the event a Trustee is removed or resigns, the Board of Trustees shall amend to appoint a new



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member to the Committee within thirty (30) days of the vacancy or the next available regular meeting, whichever is later. In accordance with GFOA recommendations, Trustees considered for appointment to the Committee shall not be exercising managerial responsibilities that fall within the scope of the audit of the District.<sup>1</sup>

- At-Large Members shall be appointed by the Board of Trustees from applicants with appropriate accounting, auditing, internal controls, and financial reporting expertise. This expertise could include:
  - Hold an active CPA license (preferably in Nevada) or have at least 15 years of progressive financial management experience as evidenced on a resume, CV, or LinkedIn
  - Experience on governing board, either as committee or board member
  - Experience either preparing or auditing financial statements
  - Experience with internal controls
  - An understanding of the function of an audit committee
  
- At-Large Members will serve staggered two-year terms:
  - For the first appointment, one member will serve a one-year term and the other two will serve a two-year term.
  - For each subsequent appointment the member will serve a two-year term.

• Terms for At-Large and Trustees Members shall commence on March 1<sup>st</sup> and expire on the last day of February of the applicable year. Committee members appointed to terms originally set to expire on June 30<sup>th</sup> shall serve until the last day of February after their term was set to expire. Members appointed to fill a vacancy shall serve for the balance of the initial term.

One member of the Committee shall be appointed by the Committee to be the Chair. The Chair will schedule all Committee meetings and provide Committee

<sup>1</sup> “To ensure the committee's independence and effectiveness, no governing body member who exercises managerial responsibilities that fall within the scope of the audit should serve as a member of the audit committee” Source: GFOA Best Practices, Audit Committee

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## **Accounting, Auditing, and Financial Reporting Audit Committee Charter Policy 15.1.0**

members with a written agenda for each meeting. Committee Members may request agenda items for the Chair's consideration and approval.

The Committee members are limited to two 2-year terms, which may be extended with the Board of Trustees approval in the event there are no interested or qualified applicants to fill any future vacancies. In the event of any regular or unexpected vacancies for At Large Members, staff shall conduct a public process to solicit and receive applications from interested community members for consideration by the Board of Trustees. Staff shall begin this process with sufficient time to ensure the Board of Trustees can make biannual appointments and within thirty (30) days of any unexpected vacancy. Staff shall begin this process with sufficient time to ensure the Board of Trustees can make biannual appointments and within thirty (30) days of any unexpected vacancy.

### **1.0 Independent auditor reports directly to the Audit Committee**

The independent auditor will be engaged by and report directly to the Committee. The Committee is expected to maintain free and open communication with the independent auditor and District Staff. This communication may include periodic executive sessions with each of these parties. The independent auditor is to bring to the attention of the Committee any additional work required (and related fee impact), beyond the scope of work contained in the engagement letter and the audit plan, to fulfill their responsibilities before any such work is undertaken.

### **2.0 Scope of the Committee's Authority and Responsibilities**

It is the responsibility of the Committee to provide independent review, oversight and feedback on:

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

To fulfill these responsibilities, the Committee shall:

- 2.1 Be independent, effectively communicate, and reinforce accountability.
- 2.2 Manage the external independent audit procurement process.



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- 2.2.1 Review and approve the Request for Proposal (RFP) for an independent auditor to be retained by the District. Such engagement should be for no more than five fiscal years in duration.
  - 2.2.2 Make recommendations on the scope of work.
  - 2.2.3 Make recommendations to the Board of Trustees and take subsequent action to engage an independent auditor.
  - 2.2.4 Review and approve the engagement letter (i.e., contract) between the District and the independent auditor
  - 2.2.5 If deemed necessary, identify and recommend additional audit services to be performed.
  - 2.2.6 By March 31st of each calendar year, the Board of Trustees is to formally designate an external independent auditor and inform the Nevada Department of Taxation. (NRS 354.624 item 3).
  - 2.2.7 When appropriate recommend the replacement of the independent auditor and the initiation of the procurement process (2.2.1).
- 2.3 Facilitate the independent audit process.
- 2.3.1 Review and approve, in consultation with the independent auditor, the annual audit plan, the scope of audit activities and schedules by June of each year
  - 2.3.2 Provide an independent forum for auditors to report findings or difficulties encountered during the audit
  - 2.3.3 Review with the District management and the independent auditor all major issues identified by the independent auditor regarding:
    - 2.3.3.1 Accounting Principles.
    - 2.3.3.2 ACFR presentation.
    - 2.3.3.3 Any significant changes in the selection or application of accounting principles.
    - 2.3.3.4 Significant judgments made in the preparation of the ACFR and basic financial statements.
    - 2.3.3.5 The effect of regulatory initiatives.
    - 2.3.3.6 Off-balance sheet structures.



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- 2.3.3.7 Changes to audit plan of independent auditor as a result of any additional issues identified by the auditor.
- 2.3.3.8 Any restrictions on the scope of the auditor's activities or on access to requested information or managements responses.
- 2.3.4 To review with District management and the independent auditor any material conflicts or disagreements between District management and the independent auditor, whether or not resolved, regarding financial reporting, accounting practices or policies or other matters, that, individually or in the aggregate, could be significant to the District's financial statements or the independent auditors' report, and attempt to help resolve any conflicts or disagreements regarding financial reporting.
- 2.3.5 According to the approved work plan, conduct periodic meetings with the external auditor to review progress, issues identified, concerns and the audit timeline.
- 2.3.6 Review the Management Representation letter by the District's management prior to submittal of the letter to the independent auditor.
- 2.3.7 The Committee shall submit a written report to the District's Board of Trustees in conjunction with the presentation of the ACFR to the Board of Trustees by the end of December.
- 2.4 Post Independent Audit Follow up
  - 2.4.1 Follow-up on any corrective action identified by the independent auditor, if any.
  - 2.4.2 Annually evaluate the work of the independent auditor and lead audit partner based on compliance with work plan and engagement letter.
- 2.5 The Committee may identify a need to engage an external resource to address a specific area of concern.
  - 2.5.1 The Committee shall seek approval from Board of Trustees to obtain appropriate resources.
  - 2.5.2 The Committee shall agree the Scope of Work.





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- 2.5.3 The Committee is responsible for engaging the resource to perform the scope of work.
  - 2.5.4 The external resource shall report findings to the Committee.
  - 2.5.5 The Committee will provide findings to the Board of Trustees and recommend possible implementation of the findings, if any.
  - 2.5.6 Management will have the responsibility for implementation of identified changes or enhancements.
- 2.6 The Committee shall review and provide oversight of the internal controls ensuring management establishes, implements and reviews internal controls on a regular basis for functionality and effectiveness.
- 2.6.1 Management will provide an annual schedule for the review of District Financial Practices (internal control) documents. These documents will be provided to the Audit Committee for their review and oversight.
  - 2.6.2 Review the annual internal control audit plan(s).
  - 2.6.3 Review management's annual assessment of their internal controls for prior year audit plan.
  - 2.6.4 Review management's identification of fraud risks, review the implementation of anti-fraud measures.
- 2.7 Annually review the District's Code of Conduct that promotes honest and ethical conduct; full, fair, accurate, timely disclosures in periodic reports including the ACFR; and compliance with applicable policies and practices to ensure it is adequate and up-to-date.
- 2.8 To annually review and refine as necessary the whistleblower procedures for the receipt, retention, and treatment of complaints received by the District, from the public or anonymous submissions by employees of the District, regarding accounting, internal accounting controls, auditing matters, or suspected fraud for recommendation to the board of trustees for consideration and possible approval.



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- 2.8.1 Review and refine as needed the procedures for educating employees on their individual role in ensuring the District's financial integrity.
- 2.8.2 Ensure employees of the District have an anonymous method for concerns to be submitted.
- 2.9 Reports to Board of Trustees.
  - 2.9.1 The Committee shall submit an annual report to the Board of Trustees assessing its fulfillment of its duties and responsibilities as described in the Charter

**3.0 Meetings**

- 3.1 Meetings are to be conducted in accordance with the state's Open Meeting Law NRS 241. The Board of Trustees will be emailed a copy of the meeting minutes. Meeting minutes will be posted on the District website.
- 3.2 The committee will hold meetings up to twice per quarter, unless immediate action is needed and no less than four times per year. All members are expected to attend on a regular basis. Any member missing two consecutive meetings without due cause (i.e., illness) will be reviewed for continued membership on the Committee by the Chairs of the Committee and Board.
- 3.3 The committee Chair shall establish the agenda for meetings and provide all briefing materials to members and the public in advance.
- 3.4 The District's management is to provide to copies of all materials which are to be presented by management to a Committee's public meeting in compliance with NRS 241.
- 3.5 The Committee shall review correspondence to determine if any action is to be taken. If needed, assign the responsibility to investigate and resolve the concern/question to the appropriate organizational leader. Communicate with the submitter, if known, regarding their submitted concern.



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- 3.6 The Committee shall review all past correspondence which contains outstanding action items. Ensure responses and/or corrective action is taken in a timely manner.
- 3.7 The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary.
- 3.8 An annual meeting is to be held with the independent auditor, the General Manager, the Director of Finance, legal counsel and anyone else as desired by the Committee to review the audited annual basic financial statements including the Comprehensive Annual Financial Report (ACFR) and the auditor's material written communications with the District.

**4.0 Annual Financial Risk Assessment and Risk Management.**

The Committee shall review and discuss with District management and the independent auditor the District's major financial risk exposures, and the steps management has taken to monitor and control those exposures. It is the Board's responsibility to ensure the District has adequate controls and plans for risk mitigation for areas beyond finance.



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### **1.0 Independent auditor reports directly to the Audit Committee**

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### **2.0 Scope of the Committee's Authority and Responsibilities**

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  - 2.2.5 If deemed necessary, identify and recommend additional audit services to be performed.
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- 2.3.3.7 Changes to audit plan of independent auditor as a result of any additional issues identified by the auditor.
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- 2.3.4 To review with District management and the independent auditor any material conflicts or disagreements between District management and the independent auditor, whether or not resolved, regarding financial reporting, accounting practices or policies or other matters, that, individually or in the aggregate, could be significant to the District's financial statements or the independent auditors' report, and attempt to help resolve any conflicts or disagreements regarding financial reporting.
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- 2.8 To annually review and refine as necessary the whistleblower procedures for the receipt, retention, and treatment of complaints received by the District, from the public or anonymous submissions by employees of the District, regarding accounting, internal accounting controls, auditing matters, or suspected fraud for recommendation to the board of trustees for consideration and possible approval.



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- 2.9.1 The Committee shall submit an annual report to the Board of Trustees assessing its fulfillment of its duties and responsibilities as described in the Charter

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**4.0 Annual Financial Risk Assessment and Risk Management.**

The Committee shall review and discuss with District management and the independent auditor the District's major financial risk exposures, and the steps management has taken to monitor and control those exposures. It is the Board's responsibility to ensure the District has adequate controls and plans for risk mitigation for areas beyond finance.