

MEMORANDUM

TO: Board of Trustees

THROUGH: Indra S. Winqest
General Manager

FROM: Paul Navazio
Director of Finance

SUBJECT: Final report regarding the District's contract administration submitted by Moss Adams, LLC representative Stephen Bacchetti (Requesting Staff Member: District General Manager Indra Winqest)

STRATEGIC

PLAN REFERENCE(S): Long Range Principle #2 Finance

DATE: January 6, 2021

I. ACTION, IF ANY, REQUIRED

There is no action required by the Board of Trustees as this is a report item that provides, in a publicly noticed meeting, the final report regarding the District's contract administration policies and procedures review submitted by Moss Adams, LLC and presented by Moss Adams LLC representative Stephen Bacchetti. Mr. Bacchetti will be present in order to answer any questions that the Board of Trustees may have.

II. BACKGROUND

At its meeting of June 10, 2020 the Board of Trustees authorized then (Interim) General Manager to execute a professional services contract with Moss Adams LLP for in an amount not-to-exceed \$38,000. The scope of work included review of up to five specific contracts, to include identified samples of recent consulting and construction contracts.

The contracts selected for review under this contract included: PICA Corporation (awarded 4/30/14) and HDR (awarded 4/30/14, and amended 2/25/15) engineering consulting contracts related to the Effluent Pipeline Project, Jacobs Engineering contract (awarded 12/12/19) related to the Wastewater Resource

Recovery Facility Aeration project, and the Houston-Smith contract (awarded 8/14/19) related to construction of the Mountain Golf Course Renovation Project.

The recommendations included in this report will assist the District in identifying opportunities to improve policies, procedures and internal controls related to management of professional services consulting and construction contracts to ensure and promote transparency and accountability related to capital program investments.

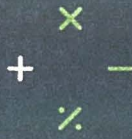
The report prepared by Moss Adams, LLC includes specific findings and recommendations informed by industry best practices in the areas of:

- Contract Administration Management and Controls
- Bid and Procurement Management and Controls
- Change Order and Scope Management and Controls
- Expenditure Management and Controls
- Design and Construction Budget Management and Controls
- Project Close-Out Controls

The report also includes management responses and planned actions and timetable related to each of the key improvement opportunities identified in the report (see Appendix C).

Attachment:

- 1) IVGID Construction Advisory Fact Validation Report prepared by Moss Adams, LLC, dated December 21, 2020



Proprietary & Confidential

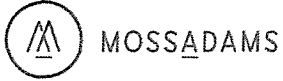
FINAL REPORT

Incline Village General Improvement District
CONSTRUCTION ADVISORY FACT VALIDATION REPORT

December 21, 2020

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December 21, 2020

Mr. Paul Navazio
Director of Finance
Incline Village General Improvement District
893 Southwood Blvd.
Incline Village, NV 89451

Dear Mr. Paul Navazio:

Thank you for the opportunity to perform the capital program assessment project for Incline Village General Improvement District. This report summarizes the results of our construction and project controls review.

This engagement was performed in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants as outlined in our professional services agreement dated April 27, 2020. The scope of this engagement is outlined in the body of our report. This report was developed based on information from our review of construction projects and records.

This report is intended solely for the use of Incline Village General Improvement District and may not be provided to, used, or relied upon by any third parties. Moss Adams LLP does not accept any responsibility to any other party to whom this report may be shown or into whose hands it may come.

We appreciate the opportunity to help you continuously improve your construction program performance. Please do not hesitate to contact us if you have any questions or need further assistance regarding this important matter.

Very truly yours,

Moss Adams LLP

Moss Adams LLP
Rancho Cordova, CA

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I. EXECUTIVE SUMMARY

Moss Adams (we, our) was engaged to perform a capital program assessment for Incline Village General Improvement District (IVGID or the District), focusing specifically on eight vendor agreements selected by the District (see Appendix A for additional detail). Our review assessed control activities by conducting thorough interviews (see Appendix B for list of interviewees), inquiries, and document review.

We worked with District management (Management) to develop improvement recommendations to help support the capital program’s success and ensure alignment with best practices. We ranked our improvement recommendations as high, medium, or low priority based on our analysis and experience, including probability and potential impact to project costs, schedule, and scope.

We identified many good practices relating to IVGID’s capital program. A list of some key best practices observed are as follows:

- IVGID maintains a semiannual rolling Strategic Plan, which outlines a number of the District's long-range principles. These principles can help guide capital program objectives and resource allocation.
- IVGID maintains an annual multi-year (five-year look forward) and current year Capital Improvement Plan (CIP), with detailed policies and procedures for the establishment, maintenance, and contents of the plans.
- IVGID maintains capital program procedural documents in accordance with minimum Nevada Revised Statutes (NRS) requirements.

The project kick-off meeting with IVGID was conducted on July 13, 2020. Interviews were completed and, the majority of requested documents were provided by October 13, 2020, which served as the primary basis of our assessment.

The following table summarizes key improvement opportunities identified within our review procedures, their associated risk level, and category. See Section III for additional observation and recommendation details.

OBSERVATION NO.	KEY IMPROVEMENT OPPORTUNITIES	RISK LEVEL	CATEGORY
1	Implement and finalize policies and procedures defining processes for master planning, reporting, scope definitions and prioritization, and communication efforts.	High	Contract Administration Management and Controls
2	Consolidate all Public Works and Contract Administration policies, procedures, and resolutions.	High	Contract Administration Management and Controls
3	Continue procurement and implementation efforts for new capital program management technology.	Medium	Contract Administration Management and Controls



OBSERVATION NO.	KEY IMPROVEMENT OPPORTUNITIES	RISK LEVEL	CATEGORY
4	Implement policy and procedures for the competitive solicitation of professional services	Medium to High	Bid and Procurement Management and Controls
5	Ensure appropriate documentation and execution of any modification to contractual agreements.	High	Change Order and Scope Management and Controls Application
6	Establish change order and addendum-specific reporting within key capital program reporting.	High	Change Order and Scope Management and Controls Application
7	Ensure all payment processing procedures are completed prior to payment approval.	High	Expenditure Management and Controls
8	Revise current invoice processing policy to effectively receive invoices by the appropriate department	Medium	Expenditure Management and Controls
9	Continue development and formalization of ongoing project-level budget-to-actual expenditure reporting.	Medium to High	Design and Construction Budget Management and Controls
10	Implement and formalize project close-out procedures for professional services.	High	Project Close-Out Controls
11	Implement and update the informally utilized close-out checklists into required close-out procedures for construction projects.	Medium to High	Project Close-Out Controls



II. OBJECTIVE AND SCOPE

Moss Adams performed a capital program assessment for IVGID focusing specifically on eight vendor agreements selected by the District, including associated task orders, addenda, and change orders (see Appendix A for detailed listing of projects reviewed). The objective of our review was to assess the capital program controls in place and operating for the specified projects in order to identify capital program improvement opportunities for the District. Improvement opportunities were categorized as observations with associated risks and improvement recommendations. Our assessment provided specific emphasis on the following areas:

- Contract administration management and controls
- Bid and procurement management and controls
- Change order and scope management and controls application
- Expenditure management and controls
- Design and construction budget management and controls
- Project close-out controls

The capital program assessment was initiated during the kick-off meeting with the District, which was conducted on July 13, 2020. Interviews were completed, and the majority of requested documentation was provided by October 13, 2020, which served as the primary basis of our assessment. See Appendix B for list of personnel interviewed. Our review procedures considered all documentation provided through November 10, 2020.

We performed our services in accordance with Standards for Consulting Services Established by the American Institute of Certified Public Accountants. Accordingly, we provide no opinion, attestation, or other form of assurance with respect to our work, or the information upon which our work is based. The procedures we performed did not constitute an examination or a review in accordance with generally accepted auditing standards or attestation standards.

IVGID should consider the following program objectives, assessments, and or support services in the subsequent quarter:

- Implement comprehensive and consolidated policies and procedures for the capital program, and other critical areas of the organization, to ensure alignment with best practices and to further support operational effectiveness and efficiencies.
- Develop master plans and associated policies and procedures with scope and prioritization definitions and key performance indicators to align with best practices.
- Formalize project-level budget-to-actual expenditure reporting and policies and procedures, including key details such as budget, expenditures, committed/encumbrances, forecasted expenditures, and alignment with approved master plans.



III. DETAILED OBSERVATIONS AND IMPROVEMENT RECOMMENDATIONS

This section details Moss Adams observations and improvement recommendations based on document review and fieldwork for each area of focus of the capital program assessment. Risk levels assigned to our improvement recommendations are provided in the table in the Executive Summary. The risk levels were determined based on our assessment of risk through interviews, documentation review, and past construction audit experience. The following 11 process improvements are grouped by risk area. Observations, Recommendations, and Management Responses are summarized within Appendix C. Within the scope of our engagement, we reviewed four project vendor scopes, comprising eight different contracts and associated task orders, addenda, and change orders (see Appendix A for additional detail).

A. CONTRACT ADMINISTRATION MANAGEMENT AND CONTROLS

Within the scope of our review, we assessed contract administration management and controls applied and in place for the four project vendor scopes (see Appendix A for project detail). Based on documentation and inquiry review, we identified the following three opportunities for improvement within contract administration.

Observation No. 1: Master Planning and Reporting

1	IVGID did not have formalized policies and prodedures defining master planning processes, including when to utilize these procedures, minimum information requirements, who is responsible for each activity, and procedures for final approval.	HIGH RISK
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Based on our review, the District could improve long-range project administration by implementing best practice project master planning and reporting policies and procedures to better plan, manage, and communicate complex multi-year public works projects.

To assess the projects within the scope of our review, we requested and reviewed the Public Works capital projects' master plans and relevant program management reporting and policy documentation. After review, we noted the District maintains a rolling 5-Year Capital Improvement Plan (CIP) to serve as the District's long-range capital plan, including a detailed 1-Year CIP to establish current year activity and budgets. Currently, the District maintains board policies for Strategic Planning (Board Policy No. 1.1.0) and Multi-Year Capital Planning (Board Policy No. 12.1.0). However, it was not apparent the District maintained formalized comprehensive master planning documents or best practice policies or procedures to effectively administer and report on the initiation, implementation, and progression of long-range projects. For instance, the District's most recent Strategic Plan (dated 5/9/2018), did not include specific objectives and performance measurements linked to long-range capital projects, such as the Effluent Pipeline Replacement project.

Per Governmental Finance Officers Association (GFOA) Master Plans and Capital Improvement Planning Best Practice, "to adequately guide the fiscal, operating, and land use needs of the community, finance officers should use Master Plans as a framework for capital project requests that go into the CIP... The CIP should be viewed as a financial blueprint that helps prioritize needs to achieve implementation of the public improvements identified in the Master Plan. The level of funding in the CIP defines the financial capacity to reach the desired goals set forth in the Master Plan." The GFOA defines



Master Plans as “long-range plans (10 - 25 years) that act as a framework for capital project requests that direct the Capital Improvement Plan.” Currently, the District maintains its CIP at a five-year period, as required by Board Policy (No. 12.1.0). The Board Policy also notes needs will be identified from sources such as strategic plans, facility master plans, regional plans, and citizen input processes; however, comprehensive reporting relating to capital projects for the above documents was not available.

Additionally, the District did not have formalized policy and procedures for the timely reporting and communication of such master plan projects. For instance, project level reporting (such as project scope and status, budget vs. forecast, schedule, cash flow, etc.) was not available. Currently, the District reports and approves an annual update to the forward-looking CIP including the following information:

- Project Description
- Project Staffing
- Project Justification
- Forecast Timeline and Expenditures by Year

However, per GFOA Best Practices for Communicating Capital Improvement Strategies, “In addition to communications during initial phases of the project, organizations have a need to maintain communications through the end of the project and report on results. Monitoring of progress and accurate reporting on the project will provide accountability and give credibility to the next project.”

Absent formalized master planning and ongoing reporting policies, it is not clear whether IVGID’s procedures are adequate to meet project management, senior management, and key stakeholder needs.

Recommendation	As a best practice, IVGID should finalize policies and procedures defining processes for master planning, reporting, scope definitions and prioritization, and communication efforts, including when to utilize these procedures (e.g., thresholds), who is responsible for each activity, and procedures for final approval.
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Master Planning policies should also define the frequency of formal reassessment of the master plan, as well as frequency of formal reporting updates on status of the master plan objectives. Documentation requirements for any master plan changes from original approved documents should include, but not be limited to, information surrounding the proposed design change, scope definitions, basis for design change, estimated design change revenue and cost impact, estimated schedule impact, and design change initiator and approver. Master plan reporting should include a summary level Project Stages Report with dates of key milestones achieved, estimated dates of key milestones to be achieved, and appropriate and relevant narrative should be maintained and reported to key stakeholders on a regular basis. Deviations should be discussed with IVGID Management and key stakeholders and documented accordingly within monthly reporting. Responsibilities should be assigned, and appropriateness of the policies and procedures should be evaluated on an ongoing basis. Implementation of formal project master planning procedures for the administration and communication of major capital project plans will provide District oversight and Management more effective and transparent decision-making, and establish accountability and credibility, while timely communicating progress on the District’s overall capital improvement goals.

Management Response	<p>Management concurs with the recommendation to review and update policies related to master capital project planning and reporting, including stakeholder communication efforts.</p> <p>Board Policy 12.1.0 and 13.1.0 establish District framework for multi-year capital planning and capital project budgeting and reporting, respectively.</p>
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These Board policies are supplemented by Board Practice 13.2.0 that outlines roles and responsibility across all phases of a capital project life-cycle.

Capital project planning, management and reporting will be facilitated by implementation of annual capital program planning workshop(s), detailed budgets for specific projects and/or phases, regular quarterly capital program status reports and individual project close-out reports for priority CIP Projects.

Planned Resolution Dates

- Regular Quarterly CIP Updates – FY2020/21 Q1 presented 10/27/20
- CIP Planning Workshop (Feb 2021)
- Capital Budget Details – FY2021/22 Budget Process (Winter/Spring 2021)
- Project Close-out Reports – on-going

Observation No. 2: Capital Program Administration Policies and Procedures

2	Public Works policies and procedures should be consolidated, formalized, and approved by the Board.	HIGH RISK
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The District maintained procedural documents for purchasing (procurement, payment processing, and change orders), engineering, and capital project budgeting. Procedural documents established various requirements for procurement types, approval requirements, invoice processing, etc. However, documentation to support that policies and procedures were evaluated, reviewed, and approved for appropriateness on a periodic basis was not available. For example, the District maintained a signing authority threshold document for various positions throughout the District; however, the document appeared to be informal. For instance, we received multiple versions of the signing authority (outdated) from various staff members.

Recommendation	As a best practice, the District should consolidate all Public Works and Contract Administration policies, procedures, and resolutions into one document to ensure effective controls and communication of the policies and procedures and obtain Board approval.
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This manual should highlight all functional areas related to Public Works activities, such as, but not limited to, staffing, contract administration, procurement, financial controls, document control, budgeting practices, master planning, scheduling, invoice/payment application review and processing, change order review and processing, and claims avoidance and management. Additionally, policies should incorporate established roles and responsibilities of both District Staff and Board. The GFOA recommends, within their article "Documenting Accounting Policies and Procedures," that the documentation of accounting policies and procedures should be evaluated annually and updated periodically, no less than once every three years. Any changes in policies and procedures should be updated in the documentation promptly as they occur, and a specific employee should be assigned the duty of overseeing this process. The resulting documentation can also serve as a useful training tool for staff.



Management Response	<p>Management concurs with this recommendation.</p> <p>Existing internal control policies and procedures, including those related to construction contracts and professional services contracts administration are being reviewed, evaluated and updated. These include Board policies and practices, Accounting and Finance policies and procedures, as well as application of applicable NRS requirements. Policies and procedures will be evaluated on a regular schedule as well as upon changes in District staffing and periodic updates to the NRS.</p>
Planned Resolution Dates	<p>Update to District staff delegated spending authority (1/1/21)</p> <p>Review of contract procurement procedures and thresholds (Jan 2021)</p> <p>Invoice Processing and Payment procedures (Jan 2021)</p> <p>Update to Board Policies to provide explicit thresholds and authorities (per NRS) – (Feb 2021)</p>

Observation No. 3: Contract Administration Technology

3	The District could improve contract administration and reporting by leveraging additional technology resources.	MEDIUM RISK
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Currently, the District utilizes two systems for the administration and reporting of capital project accounting and budgeting: Innoprise (Financial ERP) and Questica (Capital Budgeting and Reporting). However, based on inquiry and documentation review, the District does not utilize a capital project management and workflow system.

Per GFOA Best Practices for Technology in Capital Planning and Management, "Systems used across the entire organization for managing the capital program often support the following tasks:

- *Capital Planning* for multi-year capital forecasting that identifies needs of new items, replacement items, and major renovations.
- *Capital Budgeting* for managing the organization's 5-year capital improvement program and identifies both approved projects and funding sources.
- *Project Costing* for tracking the ongoing costs of capital projects including labor, requirements, supplies, and contract costs.
- *Project Management* to provide managers with project status reports, budget reports, and an ongoing indicator of project progress
- *Asset Inventory* to list all current capital assets, detailed information on asset location, features, and ownership/responsibility
- *Asset Management* to track usage information on the item, identify upcoming maintenance items and track history of work performed on the item.
- *Work Orders* to schedule and manage current work. Systems may also include a method of receiving service requests from both internal and external sources."

Based on inquiry, the District is in process of procuring a new software system to be utilized for capital project management, unanimously approved by the Board on October 27, 2020. Implementation of a capital project management tool will improve project administration, scheduling, analysis, and reporting



while establishing systematic controls over contract management (see Observation No. 5) and document retention (see Observation No. 10).

Recommendation

The District should continue procurement and implementation efforts for new technology and tools to formalize, streamline, and improve contract administration controls and reporting capabilities.

Per GFOA best practices, "GFOA recommends that finance officers take an organizational-wide approach to using technology for capital program management. Use of appropriate technology that can be used by key participants in the process—in finance, engineering, operations, overall management, and other areas can enhance collaboration and improve management of the capital program by providing timely, relevant, and complete information to all... Overall, technology provides the opportunity to transform the planning, budgeting, implementation, and overall management of an organization's capital program. However, to generate the expected return on investment, an organization should properly plan for such a system and detail its specific needs so that a system can be deployed that meets needs across the organization given its resource constraints for both the initial purchase and long term maintenance."

Management Response

Management concurs that existing and best-of-breed technology can greatly improve and streamline contract administration, internal controls and reporting. Currently, the District utilizes several, independent software tools related to capital budgeting and reporting, contract management, fixed assets and stakeholder communication. Existing systems can be improved, incrementally; however the District's transition to a new Financial and Accounting Enterprise Reporting (ERP), provides opportunity to develop integrated capital budget planning and reporting as well as imbedded internal control processes and customized approval thresholds.

Planned Resolution Dates

Contract administration process review (Dec 2020 -Mar 2021)

Updated procedures (July 2021)

Tyler Finance and Accounting ERP / Capital Budgeting (July 2022)

B. BID AND PROCUREMENT MANAGEMENT AND CONTROLS

Within the scope of our engagement, we reviewed the procurement of four project vendor scopes and compared them to the District's established policy and procedures as well as best practice. We identified the contract procurement for the in-scope projects to be in compliance with the District's policies; however, we identified opportunities for improvement in regard to professional services procurement noted below. See Appendix A for a list of projects, vendors, and contracts reviewed.



Observation No. 4: Competitive Solicitation Procedures for Professional Services

4 District policies and procedures did not include competitive solicitation requirements for Professional Service Agreements.

MEDIUM TO HIGH RISK

While the District's policies are in compliance with the Nevada Revised Statutes (NRS) in regard to procurement of professional services (i.e., professional services do not require formal competitive bidding [NRS 332.115]), establishment of competitive solicitation procedures for professional service contracts was not evident in policies and procedures as a best practice based on our experiences.

We reviewed the procurement of three professional service vendors (HDR, PICA Corporation, and Jacobs). Upon request, the District was unable to document formal competitive solicitation procedures performed for the original agreements or task order/addenda. The District was able to document an informal competitive assessment and selection of PICA Corporation through a collaborative review process and recommendation from HDR. For HDR and Jacobs, the District noted a sole source selection due to historical experience with the District. However, formalized procurement and solicitation procedures for professional services ensures the District obtains best value at fair pricing, while also maintaining an up-to-date vendor listing.

Recommendation

As best practice, the District should implement policies and procedures for the competitive solicitation of professional services, including scope definitions and requirements, schedule, format, and threshold considerations.

Format examples would include the timely maintenance of a qualified vendor listing through a Request For Qualifications (RFQ) and Request For Proposal (RFP) process, direct, and/or advertised solicitation. Policy should establish contract value thresholds to direct minimum requirements for competitive solicitation in selecting vendors for professional services.

Management Response

The District follows requirements established by NRS 332, the Local Government Procurement Act, as the highest authority for procedures related to local government purchases, including professional services contracts. NRS 332.115.1(b) specifically provides that professional services are "not adapted to award by competitive solicitation.

Management supports the clarification of Board policy related to the procurement of professional services contracts and consideration of establishment of thresholds for competitive bidding for selected categories of professional services.

Planned Resolution Dates

Agendize for Board discussion and direction (TBD)



C. CHANGE ORDER AND SCOPE MANAGEMENT AND CONTROLS APPLICATION

Within the scope of our engagement, we reviewed the change order and scope management of the four project vendor scopes and compared them to District policies and procedures as well as best practice. We identified two areas of potential exception with the District's change order management policy and procedures, noted below. See Appendix A for list of vendor change orders and amendments reviewed.

Observation No. 5: PICA Corporation Contract and Scope Amendment Management

5	The District did not adequately document and execute contract amendments for PICA Corporation's original professional service agreement.	HIGH RISK
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The District recommended and the Board approved the amendment to the PICA Corporation original short-form agreement in the amount of \$100,000; however, the District did not execute a contract amendment. Per the Board Memorandum dated February 17, 2015, the District requested the Board approve an amendment to the original PICA Corporation agreement in order to fund the remobilization of the contractor to continue and complete remote field-testing inspection services. Based on the memorandum narrative, a remobilization was required due to unforeseen complications and damages to the pipe gauging tool. The Board approved the amendment recommendation in the amount of \$100,000. Based on our review, it appeared the work continued; however, a contract scope amendment was not executed. Per Board Memorandum dated July 13, 2018, upon remobilization and successful pipe gauging, PICA encountered additional complications and damages with the actual inspection tool, allowing only partial completion of the originally scoped work (see Observation No. 9). Without an executed amendment or settlement, the deliverable and responsibilities of the original short form agreement appear unsettled and unclear. As a result, it appeared the District was at risk of undocumented understanding of scope change with the vendor.

Recommendation	As best practice, the District should ensure appropriate documentation and execution of any modifications to contractual agreements, including change in scope, schedule, responsibilities, conditions, and or deliverables.
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Significant modifications or settlements should be approved, ratified, and/or reported to the Board, depending on both financial and master plan scheduling implications

Management Response	Change orders for professional services contracts are generally handled through Additional Services Addendum or separate Task Order, as well as corresponding increase to the Purchase Order established with each contract. Supporting documentation is provided to Accounting. These changes are reviewed for consistency with Board authorization prior to payment of invoices.
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Planned Resolution Dates	Approval process and documentation for change orders to construction contracts will be included as part of overall policy and process documentation effort (See #'s 2,5, and 6).
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Observation No. 6: Change Order Reporting

6 Change order and addendum scope changes were not reported to key stakeholders with key performance indicators to adequately report change order impact and assigned responsibility.

HIGH RISK

Identifying change order and addendum responsibilities may include classifications such as owner-initiated, scope changes, design errors, contract errors, and unforeseen conditions. Without this level of information, responsibility for change orders and associated costs will not be evident to key decision makers. Absent further information, change order reporting is not in line with best practices and lacks information to adequately report to key stakeholders.

Recommendation

As a best practice, IVGID should establish change order and addendum-specific reporting within key capital program reporting to ensure end users understand change order scope, impact, and assigned responsibility.

Change order reporting should include information such as itemized change amount, percentages, descriptions, scope definitions, change responsibility, date of approval, subtotals, and totals for easy end user reference. Change order documentation should be available at the project and program level with both detailed and summary level information available. Summary and detailed change reporting is necessary to understand change order cause, responsibility, pricing, and compliance and to identify potential duplicate work scopes and/or redundancies caused by unclear scope objectives and/or expectations within the master plan. Absent this additional information, change order details are not adequately reported to end users.

Management Response

Management supports enhancing capital project reporting to include documentation of approved change orders.

Planned Resolution Dates

Quarterly CIP Popular Status Reports – (Feb 2021)

Major Project Status Reports – as scheduled

CIP Project Close-out Reports – as scheduled

D. EXPENDITURE MANAGEMENT AND CONTROLS

Within the scope of our engagement we reviewed the expenditure management and controls of the four project vendor scopes and compared them to District policies and procedures as well as best practice. We identified two areas of potential exception with District's invoice processing policy and procedures, noted below. We reviewed purchase orders, invoices, and approval documentation for the in-scope project expenditures (See Appendix A for projects, vendors, and expenditure amounts).



Observation No. 7: Expenditures Processed in Excess of Contract Value

7 The District processed project payments in excess of contractual agreements for two of eight contracts under review.

HIGH RISK

Based on the documentation provided, we noted the following vendor agreement values, purchase order values, and total billed amounts:

Vendor Name	Contract/PO No.	Original Contract Value + Amendments	Final PO Value	Total Billed
PICA Contract*	Original SFA*	\$423,750.00*	\$503,750.00	\$495,000.00
PICA Contract	ASA 1	\$480,000.00	\$480,000.00	\$484,860.99

* See Change Order Observation No. 5

Per District policy, procedures for construction contracts paid by application, "The Accounting Department will maintain a running reconciliation of the total authorized contract including change orders, less payments and retained amounts. This reconciliation will be compared to actual vendor invoices and the control sheet maintained by Engineering to administer the contract." However, in the two project cases above, it appeared payments were made in excess of the contractual values. No additional approval documentation was provided. Payments in excess of agreed upon values put the District at risk of overpayment and undocumented service terms (see Observation No. 5). Absent additional information, the payment processing engineering control sheet reconciliation process to prevent payments in excess of contractual values was not operating effectively.

Recommendation

The District should ensure all payment processing procedures are completed and reviewed/signed off on prior to payment approval.

The District should consider implementing systematic workflows and sign off requirements, aligned with District policy, to ensure completion and accountability.

Management Response

Management concurs with the recommendation that all payment processing procedures are completed and reviewed prior to payment approval, consistent with current policy and procedures (Accounting and Financial Procedures – Purchasing and Accounts Payable Cycles).

Two instances were identified within the scope of this report. One involved payments processed within the contract authority plus contingency approved by the Board (\$503,750 vs. \$495,000 billed). and one exceeded contract contingency authority by \$61.00 (\$484,800 vs. \$484,861 billed).

Planned Resolution Dates

N/A - Current Policies and Procedures in place.



Observation No. 8: Invoice Processing Controls

8 Per District policy, invoices are to be sent directly to the Accounting Department; however, based on our review and inquiry, invoices are also received by the Engineering Department.

MEDIUM RISK

Within our review, we identified multiple invoices addressed to the District's Engineering Department. For example, Houston Smith Construction Payment Applications were addressed to "Incline Village G.I.D., Engineering Dept. 1220 Sweetwater Road, Incline Village, NV 776-832-1267." Additionally, per inquiry, Engineering's initial receipt of invoices has caused issues with document control, due to multiple versions circulating before or after forwarding to the Accounting Department. Per District policy, "All vendor invoices and statements should be mailed directly to: 893 Southwood Boulevard and forwarded to the Accounting Department. Failure to do so may result in delays in recording the invoice and cause misstatement of accounts payable and the related asset or expense accounts." Absent additional information, all vendor invoice and statements should be sent directly to the Accounting Department, as required by District policy.

Recommendation

The District should revise current invoice processing policies to effectively receive invoices by the appropriate department. Otherwise, ensure the establishment of invoice control procedures by requiring vendors to send all final invoices and statements directly to the District's Accounting Department.

Management Response

Management concurs with the need to review current invoice processing procedures to ensure efficient processing while maintaining effective internal controls related to vendor and contractor payments.

Planned Resolution Dates

Invoice Processing and Payment procedures (Jan 2021) (See Recommendation #2)

E. DESIGN AND CONSTRUCTION BUDGET MANAGEMENT AND CONTROLS

Within the scope of our engagement we reviewed the design and budget management controls in place and applied across the four project vendor scopes. Based on documentation and inquiry review, we identified the following opportunity for improvement within budget management.

Observation No. 9: Project Budget and Status Reporting

9 Timely consolidated project reporting with key project information was unavailable within IVGID management reporting.

MEDIUM TO HIGH RISK

Based on our review, we identified the District establishes initial project budgets and timelines within its annual and 5-year CIP. However, based on available reporting and inquiry, the District does not continue to formally report on budget-to-actual activity on a project level. Currently, the District reviews and reports CIP budget-to-actual on a single line within published Monthly District Financial Reports, without project detail. On the District's webpage, Capital Improvement Project reporting including project level



budget-to-actual was available; however, the most recent reporting was through March 31, 2019. Additionally, on January 22, 2020, the Board approved new quarterly project reporting templates called the Popular Report, including original budget, budget adjustments, and actual expenditure; however, reporting has not appeared to be maintained or available since March 31, 2019. The Board's approved format appeared to be based on a Popular Report presented on December 31, 2019, but did not appear to be maintained or presented by Management on an ongoing basis. Furthermore, the report did not include GFOA minimum recommended information such as schedule performance and estimated/forecast cost updates (see the recommendation below).

Based on the District's current available reporting, it is unclear how Management formally reviews and manages project level budgets on a consistent and timely basis. As best practice, District Management should have timely and accurate budget, forecast, and expenditure reporting available to review in order to 1) help prevent non-compliant and excessive charges and 2) better control and manage project costs.

Based on inquiry, the current financial system has the ability to report budget and actual activity on a line by line (project) basis. However, this level of reporting has not been completed or maintained. Without ongoing budget-to-actual detail reporting, Management does not have adequate and up-to-date information to administer and control expenditures at the program management level.

Recommendation

The District should continue the development and formalization of ongoing project-level budget-to-actual expenditure reporting, including key details such as budget, expenditures, committed/encumbrances, and forecasted expenditures.

Based on GFOA's Best Practices Capital Project Monitoring and Reporting, the District should produce status reports and capital projects' financial and project activity information including, but not limited to, the following information:

- Confirmation that a project plan exists that identifies all required resources and milestone work products and assurance that the project plan is being followed
- Confirmation that the project's scope has been clearly identified upon completion of final design and the project stays within scope or changes to scope have been made consistent with an established process
- Results compared to established measures of performance including, at a minimum, cost and schedule performance indices

Meaningful reports should provide straightforward project information for executive leadership and internal staff as well as citizens and the media, and at minimum:

- Provide a comparison of actual results to the project plan
- Highlight significant changes to project scope, costs, schedule, or funding
- Aid in the reporting, and an annual snapshot of key schedule, cost estimate, and available funding information should be taken to establish baseline data for performance measures and report components

Additionally, as a best practice, project reporting with key project information, including forecasted expenditure amounts, should be consistently reported to Management and key stakeholders. Any forecasted overruns should be addressed with detailed plans to secure additional sources of funding and identify alternative options to reduce projected costs while still meeting the District's objectives and needs. The District should develop and implement policies and procedures for budget establishment and management activities for capital projects. Additionally, formal written policies and procedures, including defined responsibilities and approval authority for internal and public reporting, should be created to ensure accountability, appropriate review, and approval controls are in place.



Management Response Capital project planning, management and reporting will be facilitated by implementation of annual capital program planning workshop(s), detailed budgets for specific projects and/or phases, regular quarterly capital program status reports and individual project close-out reports for priority CIP Projects. (See Recommendation #1, above).

Planned Resolution Dates Regular Quarterly CIP Updates – FY2020/21 Q1 presented 10/27/20
 CIP Planning Workshop (Feb 2021)
 Capital Budget Details – FY2021/22 Budget Process (Winter/Spring 2021)
 Project Close-out Reports – on-going

F. PROJECT CLOSE-OUT CONTROLS

Within the scope of our engagement we reviewed the project close-out controls of the four project vendor scopes, across eight different task orders and addenda, and compared them to District policies and procedures as well as best practice. During our review procedures, we identified the following two observations and opportunities for improvement.

Observation No. 10: Inadequate Professional Service Close-Out Procedures

10	The District did not maintain formal project close-out procedures for professional services, resulting in the potential for incomplete scopes, draft deliverables, and/or documentation.	HIGH RISK
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Based on the documentation provided, no project close-out control documentation was maintained or available for professional service contracts. Additionally, it appeared that contractually agreed upon deliverables were not fully received or retained for two of eight professional service scopes reviewed: PICA's original SFA and HDR's ASA 33002E.

HDR ENGINEERING ASA #33	
Key Contract Deliverable	Received (Y/N)
1) Permits	Y
2) As-Builts	Y
3) 90% Drawings	Y
4) Final Drawings and Specifications	Y
5) Up to six submittal responses and up to three RFI responses	N
6) Final Technical Memorandum.	N



PICA CORP ORIGINAL SFA	
Key Contract Deliverable	Received (Y/N)
1) Preliminary Report	Y
2) Final Report	N
3) Verification Dig Sheets	N

Based on the professional service agreements, both engagements established multiple deliverables to be provided by the vendor, including a final report (or technical memorandum). Further, PICA's agreement established additional "Verification Dig Sheets" as the final phase of reporting. While multiple deliverables from the vendors were available for review (preliminary reports, meeting agendas, preliminary construction drawings, final construction drawings, etc.), final reports (memorandum), and verification dig sheets were not available for review.

Per Board Memorandum dated July 13, 2018, PICA encountered complications and damages with their inspection tool, allowing only partial completion of the originally scoped work; however, no contract amendment, settlement, or memorandum was executed to amend expected deliverables or conditions (see Observation No. 5). Without formalized project close-out controls and procedures, the District is at risk of inconsistent project finalization, potentially resulting in incomplete documentation turnover, unsettled claims, and incomplete originally agreed upon scopes.

Recommendation

The District should formalize and implement project close-out procedures for professional services.

Upon project completion, the District ensure that actions are taken to finalize project activity, including confirming that the established procedures for user acceptance of project work and final project completion have been followed. The District's policy should consider project thresholds and include the compilation of a consolidated project-close out checklist to ensure and report on submittal of documentation by vendors and completion of all critical tasks prior to release of final payment. Checklists should be formally approved to promote accountability and all project close-out documentation should be retained in a formalized manner.

Management Response

Management concurs with this recommendation and will formalize project close-out checklists and procedures for professional services contracts.

Planned Resolution Dates

Formal Project Close-Out Checklist/Procedures – 1/31/21

Observation No. 11: Formalized Construction Close-out Checklist

11 The District has an opportunity to improve construction close-out procedures by formalizing already developed checklists and document retention procedures.

MEDIUM TO HIGH RISK

Based on our review, District policy included procedures for construction project close-out, which separates requirements by contract value thresholds. Additionally, as best practice, the Engineering team maintained three project checklists, including close-out procedures differing by contract value



threshold requirements. However, the District has not formally adopted the checklist into its close-out procedures and does not include overall sign-off of the checklist prior to final payment. Based on our experience, close-out documents are typically delivered to the owner within 14 days of project completion and include, but are not limited to, the following documents:

- Notice of Completion or final deliverable
- Contractor's Affidavit
- Written Acceptance from Landlord Representative
- Conditional Final Lien Waivers and Releases
- Certificate of Occupancy (Temporary)
- Subcontractors List (Final)
- Completed Inspection Cards/Final Inspection Signoff
- Insurance Certificates
- Warranties/Guaranties
- Equipment Manuals/Maintenance Manuals
- Operating Certificates
- All Punch Lists/Completed Punch List
- Air Balance Report
- Start Up Testing Documentation
- Certified Square Footage
- Certificate of Occupancy (Final)

Recommendation

The District should formally implement and update the informally utilized close-out checklists into required close-out procedures for construction projects.

Upon project completion, the District ensure that actions are taken to finalize project activity, including, confirming that the established procedures for user acceptance of project work and final project completion have been followed. The consolidated project-close out checklist ensures and reports on submittal of documentation by the contractor and completion of all critical tasks prior to release of final payment. Checklists should be formally approved to promote accountability and all project close-out documentation should be retained in a formalized manner. Additionally, project management, facilities, and maintenance roles and responsibilities should be clearly defined to ensure that the transition from services rendered are efficient and effective.

Management Response

Management concurs with this recommendation and will formalize project close-out checklists and procedures. (See Recommendation #10, above).

Planned Resolution Dates

Formal Project Close-Out Checklist/Procedures – 1/31/21



APPENDIX A: PROJECTS REVIEWED

We reviewed the following four project vendor scopes, comprising eight different contracts, task orders, and addenda and any subsequent change orders. Based on the documentation provided, we noted the following figures:

Vendor Name	Contract	Original Contract Value	Change Orders/ Amendments	Final PO Value	Total Billed to Date
PICA Corporation	Original SFA	\$423,750	-	\$503,750	\$495,000
PICA Corporation	ASA #1	\$480,000	-	\$480,000	\$484,861
PICA Effluent Pipeline Total		\$903,750	-	\$983,750	\$979,861
HDR Engineering	ASA #33	\$89,807	-	\$89,807	\$89,763
HDR Engineering	ASA #34	\$62,631	-	\$62,631	\$62,558
HDR Effluent Pipeline Total		\$152,438	-	\$152,438	\$152,321
Jacobs Engineering	TO #26	\$40,000	-	\$40,000	\$39,996
Jacobs Engineering	TO #30	\$80,000	\$38,500	\$118,500	\$118,491
Jacobs Engineering	TO #37	\$60,000	-	\$60,000	\$32,663.68
Jacobs Aeration Project Total		\$180,000	\$38,500	\$218,500	\$191,151
Houston Smith Construction	Original Contract Agreement	\$1,006,000	\$87,893	\$1,093,893	\$1,093,893



APPENDIX B: LIST OF INTERVIEWEES

In completion of our review procedures, the following key IVGID personnel were interviewed:

- District Staff
 - General Manager
 - Director of Finance
 - Director of Public Works
 - Engineering Manager
 - Contracts Administrator
 - Controller
- Five Board of Trustees members
- Two community members (former Director of Asset Management and Audit Committee member)



APPENDIX C: RESOLUTION LOG

Below is a schedule of key improvement observations identified during the review, Management responses, and planned resolution date.

Rec. #	Key Improvement Opportunities	Risk Level	Category	Management Response	Planned Resolution Date
1	As a best practice, IVGID should finalize policies and procedures defining processes for master planning, reporting, scope definitions and prioritization, and communication efforts, including when to utilize these procedures (e.g., thresholds), who is responsible for each activity, and procedures for final approval.	High	Contract Administration Management and Controls	Capital project planning, management and reporting will be facilitated by implementation of annual capital program planning workshop(s), detailed budgets for specific projects and/or phases, regular quarterly capital program status reports and individual project close-out reports for priority CIP Projects	Regular Quarterly CIP Updates – FY2020/21 Q1 presented 10/27/20 CIP Planning Workshop (Feb 2021) Capital Budget Details – FY2021/22 Budget Process (Winter/Spring 2021) Project Close-out Reports – on-going
2	As a best practice, the District should consolidate all Public Works and Contract Administration policies, procedures, and resolutions into one document to ensure effective controls and communication of the policies and procedures and obtain Board approval.	High	Contract Administration Management and Controls	Existing internal control policies and procedures, including those related to construction contracts and professional services contracts administration are being reviewed, evaluated and updated. These include Board policies and practices, Accounting and Finance policies and procedures, as well as application of applicable NRS requirements. Policies and procedures will be evaluated on a regular schedule as well as upon changes in District staffing and periodic updates to the NRS.	Update to District staff delegated spending authority (1/1/21) Review of contract procurement procedures and thresholds (Jan 2021) Invoice Processing and Payment procedures (Jan 2021) Update to Board Policies to provide explicit thresholds and authorities (per NRS) – (Feb 2021)



Rec. #	Key Improvement Opportunities	Risk Level	Category	Management Response	Planned Resolution Date
3	The District should consider procuring and implementing new technology and tools to formalize, streamline, and improve contract administration controls and reporting capabilities.	Medium	Contract Administration Management and Controls	Management concurs that existing and best-of-breed technology can greatly improve and streamline contract administration, internal controls and reporting	Contract administration process review (Dec 2020 – Mar 2021) Updated procedures (July 2021) Tyler Finance and Accounting ERP / Capital Budgeting (July 2022)
4	As best practice, the District should implement policy and procedures for the competitive solicitation of professional services, including scope definitions and requirements, schedule, format, and threshold considerations.	Medium to High	Bid and Procurement Management and Controls	The District is follows requirements established by NRS 332, the Local Government Procurement Act, as the highest authority for procedures related to local government purchases, including professional services contracts. NRS 332.115.1(b) specifically provides that professional services are “not adapted to award by competitive solicitation.	Agendize for Board discussion and direction (TBD)
5	As best practice, the District should ensure appropriate documentation and execution of any modification to contractual agreements, including change in scope, responsibilities, conditions, or deliverables.	High	Change Order and Scope Management and Controls Application	Change orders for professional services contracts are generally handled through Additional Services Addendum or separate Task Order, as well as corresponding increase to the Purchase Order established with each contract. Supporting documentation is provided to Accounting. These changes are reviewed for consistency with Board authorization prior to payment of invoices	Approval process and documentation for change orders to construction contracts will be included as part of overall policy and process documentation effort (See Observation No’s 2,5, and 6).



Rec. #	Key Improvement Opportunities	Risk Level	Category	Management Response	Planned Resolution Date
6	As a best practice, IVGID should establish more robust change order reporting within key capital program reporting to ensure end users understand change order scope, impact and assigned responsibility.	High	Change Order and Scope Management and Controls Application	Management supports enhancing capital project reporting to include documentation of approved change orders.	Quarterly CIP Popular Status Reports – (Feb 2021) Major Project Status Reports – as scheduled CIP Project Close-out Reports – a scheduled
7	The District should ensure all payment processing procedures are completed and reviewed/signed off on prior to payment approval	High	Expenditure Management and Controls	Management concurs with the recommendation that all payment processing procedures are completed and reviewed prior to payment approval, consistent with current policy and procedures (Accounting and Financial Procedures – Purchasing and Accounts Payable Cycles).	N/A – Current Policies and Procedures in place.
8	The District should evaluate the appropriateness of current invoice processing policy or ensure the establishment of invoice control procedures by requiring vendors to send all final invoices and statements directly to the District Accounting Department.	Medium	Expenditure Management and Controls	Management concurs with the need to review current invoice processing procedures to ensure efficient processing while maintaining effective internal controls related to vendor and contractor payments.	Invoice Processing and Payment procedures (Jan 2021) (See Recommendation #2)
9	The District should produce ongoing project-level budget-to-actual expenditure reporting, including key details such as budget, expenditures, committed/encumbrances, and forecasted expenditures.	Medium to High	Design and Construction Budget Management and Controls	See Recommendation #1, above).	See Recommendation #1, above).
10	The District should implement and formalize project close-out procedures for professional services.	High	Project Close-Out Controls	Management concurs with this recommendation and will formalize project close-out checklists and	Formal Project Close-Out Checklist/Procedures – 1/31/21



Rec. #	Key Improvement Opportunities	Risk Level	Category	Management Response	Planned Resolution Date
				procedures for professional services contracts.	
11	The District should formally implement the already developed and informally utilized close-out checklists into required project close-out procedures.	Medium to High	Project Close-Out Controls	See Recommendation #11, above.	See Recommendation #11, above.

