

MEMORANDUM

TO: Board of Trustees

FROM: Indra Winqest
District General Manager

SUBJECT: Review, discuss and provide direction on possible revisions to Board Policy 15.1.0 – Audit Committee

DATE: September 9, 2021

I. RECOMMENDATION

It is recommended that the Board of Trustees:

- a) Review, discuss and provide direction on possible revisions to Board Policy 15.1.0, and
- b) Direct Staff to return to the Board with a draft of revised Policy 15.1.0 incorporating Board feedback and direction.

II. BACKGROUND

This agenda item has been prepared to facilitate the Board's continued discussion and direction on possible revisions to Policy 15.1.0 – Audit Committee.

Board Chairman Callicrate had requested that the discussion be continued to allow for all Trustees to provide input as well as to allow for any Trustee who so desired to provide written comments or suggested revisions, adding to the materials that were provided to the Board as part of the September 2, 2021 agenda packet.

Included in with this agenda item are comments provided by Trustee Wong as well as a revised version of the Audit Committee's recommended revisions prepared by Audit Committee Chair Tulloch.

Attachments:

- Board Policy 15.1.0 – adopted May 6, 2020
- Trustee Comments (Tonking and Wong)
- Update of Recommended Revisions from Audit Committee Chair Tulloch
- Board Memo – September 2, 2021 agenda : Board Policy 15.1.0

Attachment

Board Policy 15.1.0 –
adopted May 6, 2020



Accounting, Auditing, and Financial Reporting Audit Committee Policy 15.1.0

The Incline Village General Improvement District is committed to be proactive, informed, and providing the highest form of financial accountability to its parcel owners. Achieving this goal requires clear rules and procedures for making decisions and their impact on financial results.

The Government Finance Officers Association encourages the effective use of an audit committee in the public sector and considers this committee an integral element of public accountability and governance. The Audit Committee plays a key role with respect to the integrity of the District's financial information by ensuring those responsible for financial management (management, auditors, and the Board of Trustees) meets their respective responsibilities for internal controls compliance and financial reporting.

To be effective, an audit committee should be formally established by the Board of Trustees, be adequately funded, and properly documented.

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

The Committee will ensure open communication and maintain strong working relationships with the IVGID Board of Trustees, the General Manager, Director of Finance, and internal/external auditors.

The Audit Committee Charter shall be reviewed periodically with recommended changes submitted to the Board of Trustees for approval.

ORGANIZATION: The Committee shall consist of five (5) voting members. This includes two Board appointed Trustees and three Board appointed qualified At-Large Members. The Committee can be expanded to an odd number. Recommendations for expanding the number of voting members will be approved by the Committee and submitted to the Board of Trustees for approval. The Committee is to retain a financial advisor, potentially a resource from the external audit firm, to attend meetings, provide guidance and training, as needed.

Members of the Audit Committee should obtain an understanding of accounting, auditing, financial reporting, and internal control to be able, with the assistance of



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

a financial advisor, to deliberate on issues for which the Committee is responsible. Therefore, the Board of Trustees may need to budget for an outside financial advisor to assist the Committee with the independent conduct of its work. The financial advisor will be responsible for ensuring the Committee members receive training relative to internal controls, understanding of financial reports, internal audit processes, governmental regulations, and other pertinent information. The advisor should possess the following qualifications:

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

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.

- Annually, the Board of Trustees will appoint two Trustees to be voting members. Appointing Trustees to serve successive years increases the consistency and allows for knowledge retention. In the event a Trustee is removed or resigns, the Board of Trustees shall appoint a new member to the committee.
- At-Large Members shall be appointed by the Board of Trustees from applicants with appropriate expertise with staggering 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.
 - Each subsequent appointment will serve two-year terms.

One voting member of the Committee shall be appointed by the Committee to be the Chair. The Chair will schedule all Committee meetings and provide Committee members with a written agenda for each meeting. Committee Members may request agenda items for the Chair's consideration and approval.

The voting Committee members are limited to two 2-year terms which may be extended in the event there are no interested and qualified applicants.



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

1.0 Independent auditor reports directly to the Audit Committee

The independent auditor reports directly to the Audit Committee. The Audit 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, beyond the scope of work contained in the engagement agreement, to fulfill their responsibilities.

2.0 Scope of Audit Committee's Authority and Responsibilities

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

1. Financial reporting
2. Internal controls
3. The independent audit of financial statements

To fulfill these responsibilities, the Committee must:

- 2.1 Be independent, effectively communicate, and reinforce accountability.
- 2.2 Manage the external independent audit procurement process.
 - 2.2.1 Ascertain that the Request For Proposal (RFP) for a firm to be retained by the District for the annual financial audit is no more than five fiscal years with those directly supervising audit staff rotating at least every two years and audit engagement partners rotating at least every three years.
 - 2.2.2 Select the independent external auditor.
- 2.3 Make recommendations to the Board of Trustees and take subsequent action to engage an external auditor for the District's Comprehensive Annual Financial Report (CAFR)
 - 2.3.1 Make recommendations on the scope of work including the identification of funds to be audited.



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

- 2.3.2 If deemed necessary, identify and recommend additional services to be performed.
- 2.3.3 By March 31st of each year, the Board of Trustees is to formally designate an external audit firm and inform the Nevada Department of Taxation.
- 2.3.4 When appropriate replace the independent external auditors or auditing firms doing work for the District and initiate the procurement process (2.2).
- 2.3.5 Approve the scope of work and audit plans by June of each year.

- 2.4 Facilitate the external audit process.
 - 2.4.1 Review and approve formal reports or letters to be submitted to the external auditor.
 - 2.4.2 Provide an independent forum for (external and/or internal resources) auditors to report findings or difficulties encountered during the audit.
 - 2.4.3 Review the auditors' report of findings and recommendations with management and the auditor.
 - 2.4.4 Review the CAFR in its entirety, including unaudited sections and letters.
 - 2.4.5 Follow -up on any corrective action identified.
 - 2.4.6 Submit a written annual Audit Committee Report to the District's Board of Trustees in conjunction with the presentation of the annual audit.
 - 2.4.7 Assess the performance of the independent auditors.

- 2.5 Review the financial statements; quarterly and annually for fair and accurate reporting.
 - 2.5.1 Review any changes in accounting policy.
 - 2.5.2 Ensure accounting policies are followed.
 - 2.5.3 Review any off-balance sheet financings.

- 2.6 Review the framework of internal controls; ensuring management establishes, implements and reviews internal controls on a regular basis for functionality and effectiveness.



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

- 2.6.1 Review the annual internal control audit plan(s).
- 2.6.2 Review management's annual assessment of their internal controls for prior year's audit plan.
- 2.6.3 Evaluate management's identification of fraud risks, ensure the implementation of anti-fraud measures and that management is setting the tone at the top that fraud will not be accepted in any form.
- 2.6.4 The Committee may identify a need to engage an external Internal Auditor to address a specific area of concern.
 - 2.6.4.1 The Committee will review and approve or modify Management's proposal for the scope of work and selection of the resource.
 - 2.6.4.2 Management is responsible for engaging the resource to perform the scope of work and overseeing contract deliverables.
 - 2.6.4.3 Management will have the responsibility for implementation of identified internal control changes or enhancements.
 - 2.6.4.4 Management will report the findings and resolutions to the Committee.
- 2.7 Periodically review the District's code of conduct that promotes honest and ethical conduct; full, fair, accurate, timely, and understandable disclosure in periodic reports; and compliance with applicable policies to ensure it is adequate and up-to-date.
- 2.8 To review and refine as necessary the 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.
 - 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.
 - 2.8.3 Publicize the means for the public and employees to submit concerns to the Audit Committee.



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

- 2.8.4 Review any submissions received, monitor the status of all submissions, ensure their timely resolution, and the document handling or disposition.
- 2.9 The Audit Committee is to submit an annual report to the Board of Trustees assessing the results of its fulfillment of its duties and responsibilities.

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 at a minimum of once per quarter. All members are expected to attend on a regular basis.
- 3.3 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.
- 3.4 Review all past correspondence with action outstanding. Ensure responses and/or corrective action is taken in a timely manner.
- 3.5 The committee may ask members of management or others to attend meetings and provide pertinent information as necessary.
- 3.6 The committee Chair shall establish the agenda for meetings and provide all briefing materials to members and the public in advance.
- 3.7 An annual meeting is to be held with the independent external auditors, the General Manager, the Director of Finance, legal counsel and anyone else as desired by the Committee to review the audited annual financial statements including the Comprehensive Annual Financial Report (CAFR) and the auditor's letter of findings.

Attachment

Trustee Comments (Tonking and Wong)

BOARD POLICY 15.1.0

Trustee Tonking Comments

Organization

Three options I would be ok with : 1. three member group (1 board member and 2 at-large) 2. a working group of two trustees 3. 5 members (2 trustees and 3 members of public. Have trustees who are not on committee each nominate the member of the public)

Look at GFOA

Consider adding language to clarify that all members serve at the pleasure of the Board and I think we need to put language around proper conduct of members

If each member nominates their members; I think the board of trustees should appoint the chair in line w. GFOA Policy

Policy Section

1.0 Independent Auditor Reports Directly to the Audit Committee

The Auditor should also bring issues directly to Board if it is something substantial

2.1 Be independent, effectively communicate and reinforce accountability

We need to discuss independence here to affirm that the same people who are bringing up issues are not also voting on them

2.4 Facilitate the external audit process

Make sure it says independent audit

2.4.4 Review CAFR in its entirety, including unaudited sections and letters

What is the purpose of the line - the A/C is not the auditor

2.4.5 Follow-up on any corrective action identified

this follow-up should pertain to correction action identified by the independent auditor, and not necessarily corrective action dictated by the Audit Committee.

2.5 Review financial statements; quarterly and annually for fair and accurate reporting

2.5.1 Review any changes in accounting policy

2.5.1 needs to be removed that is the role of the board

2.6 Review framework of internal controls; ensuring management establishes, implements

Need to think about what level of risk they are looking for here

3.0 Meetings

3.3 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.

Audit Committee members should be providing oversight to independent resolution of issues brought to their attention, and not dictating resolution of self-identified issues/cocnerns.

3.6 The Audit Committee Chair shall establish the agenda for meetings and provide all briefing materials to members of the public in advance.

With staff



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

PROPOSED REVISIONS FOR DISCUSSION

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).

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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 "CAFR") 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.

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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 practices¹.

Commented [KW1]: Is the objective to utilize best practices from the GFOA and industry or not? This policy deviates from both best practices and I think we need clear justification if we are not going to follow best practices (i.e. board member as AC members, scope of AC responsibilities)

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, 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 CAFR.

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.

¹ Source: GFOA Best Practices, Audit Committee

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**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 approval.

ORGANIZATION: The Committee shall consist of five (5) voting members. This includes two Board members appointed annually by the 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 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. 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 for the public sector
- Experience either preparing or auditing financial statements
- Experience with internal controls over financial reporting
- 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.

At-Large Committee members shall be expected to comply with all District policies that apply to volunteers as published on the District's website.

- Annually, the Board of Trustees will appoint two Trustees to be Committee members. In the event a Trustee is removed or resigns, the Board of Trustees shall appoint a new member to the Committee. In accordance with GFOA recommendations, Trustees considered for appointment to the

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Commented [KW2]: Does not conform to GFOA Best Practices AC should all be BoT members.

In addition to GFOA best practices, here are resources on public company independence definitions
 NASDAQ Definition of Independent Director: [Rules | The Nasdaq Stock Market](#)
 NYSE Independence Tests: [Microsoft Word - Document1 \(phco.com\)](#)

Based on these definitions of "independent" directors for public companies, all the BoT members are independent

Omitted AICPA Guide on Independence as it relates to auditor independence and not director/AC independence [plain english guide.pdf \(aicpa.org\)](#)

Commented [KW3R2]: Other resources: CGMA guide to Government Audit Committees [Government Audit Committees - Part 1 - Charter, Roles and Responsibilities \(cma.org\)](#)
 AICPA Governmental Audit Quality Center [Governmental Audit Quality Center \(GAQC\) \(aicpa.org\)](#)
 AICPA Center for Audit Quality [Center for Audit Quality \(CAQ\) \(aicpa.org\)](#)
 AICPA Audit Committee Effectiveness Center [Audit Committee Effectiveness Center \(aicpa.org\)](#)

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Commented [KW4]: The Audit Committee does not have authority to expend funds of the district

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Commented [KW5]: Need to identify minimum qualifications of At-Large Members. I recommend
 -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 boards, either as a committee or board member
 -Provide at least 3 professional references who reported to the person

Deleted: District Management shall be responsible for providing copies of all relevant policies to Committee members.085 . . .¶

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

Committee shall not be exercising managerial responsibilities that fall within the scope of the audit of the District.² This recommendation would generally preclude the Treasurer from joining the Committee. (NRS 318.085 item 4)

- At-Large Members shall be appointed by the Board of Trustees from applicants with appropriate accounting, auditing and financial reporting expertise with 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.

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Commented [KW8]: Disagree, the Treasurer has no more managerial responsibility of district staff than any other member of the BoT.

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Commented [KW9]: Why are At-Large member terms longer than Trustee appointed terms? I think they should be the same

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

Commented [KW10]: I think the Board should recommend who the Chair of the Committee should be for the AC to consider

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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.

Commented [KW11]: This statement is contradictory to the Trustee terms serving on the Committee

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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.

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2.0 Scope of the Committee's Authority and Responsibilities

² "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**

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 CAFR

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.
 - 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 including the identification of funds to be audited.
 - 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 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 replace the independent auditor and initiate the procurement process (2.2.1).
- 2.3 Facilitate the external 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

Commented [KW12]: Not all the items below support this objective. See noted items

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Commented [KW13]: This inherently could impact the independence of the auditor.
Maybe we need to coordinate a conversation with Davis Farr?

Commented [KW14]: See comment above, independence issue?

Commented [KW15]: Need to define "When appropriate" This is too broad of a statement Also, the AC does not have any authority in the procurement process

Commented [KW16]: This section shows a lack of understanding of the roles of the auditor, AC, and management in the external audit process.

Also, again, not all the items below support this objective

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

- 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 regarding:
 - 2.3.3.1 Accounting Principles
 - 2.3.3.2 CAFR 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 CAFR and basic financial statements
 - 2.3.3.5 The effect of regulatory initiatives
 - 2.3.3.6 Off-balance sheet structures
 - 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 and approve 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 CAFR to the Board of Trustees by the end of December.

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Commented [KW17]: This shouldn't be the responsibility of the Committee. Management should bring these issues to the auditor and AC

Commented [KW18]: This shouldn't be the responsibility of the Committee. It is the auditor's requirement to bring this to the attention of the Committee as part of their required communications, which is standard auditing practice, not Audit Committee practice

Commented [KW19R18]: Recommend revising to "Review auditor's required communications"

Commented [KW20]: This is Management's responsibility, not the Committee

Commented [KW21R20]: Recommend revising to "Review Management's Representation Letter"

2.4 Post External Audit Follow up



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

- 2.4.1 Follow-up on any corrective actions identified by the external 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
- 2.4.3 At least annually, obtain and review a report by the independent auditor that describes:
 - 2.4.3.1 the independent auditor's internal control procedures
 - 2.4.3.2 any material issues raised by the most recent peer review of the independent auditor
 - 2.4.3.3 any inquiry or investigation by governmental or professional authorities, within the preceding five years regarding any audit performed and any steps taken to deal with any such issues.
- 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
 - 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 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.

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Commented [KW22]: I don't understand why this is included
This should be part of the RFP process to evaluate the professional credentials of the firm we are hiring

Commented [KW23]: Need to define parameters for this
Again, the AC does not have the authority to procure services

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

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 CAFR; and compliance with applicable policies and practices to ensure it is adequate and up-to-date.

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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

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.

Commented [KW24]: Whistleblower policy should be the responsibility of the BoT, not the AC

NOTE: This is predicated upon approval of the current whistleblower policy and may require to be updated dependent upon BoT changes to the whistleblower policy

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2.9 Reports to Board of Trustees.

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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

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 at a minimum of once per quarter. 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.

Commented [KW25]: Why? The district does not have quarterly reporting requirements



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

- 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 the Committee at least 7 calendar days prior to a Committee's public meeting, copies of all materials which are to be presented by management
- 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.
- 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 (CAFR) and the auditor's material written communications with the District

Commented [KW26]: Why include in policy as this is dictated by NRS?

Commented [KW27R26]: Suggest referencing relevant NRS

Commented [KW28]: Need to define what type of correspondence the BoT delegates to the AC to review. Not all correspondence should fall under the purview of the AC.

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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.

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Attachment

Update of
Recommended
Revisions from Audit
Committee Chair
Tulloch (with
attachment)

MEMORANDUM

TO: Board of Trustees

FROM: Ray Tulloch
Audit Committee Chair

SUBJECT: Update to previous review, discuss and possibly adopt recommendations for changes to Board Policy 15.1.0 as recommended by the Audit Committee

DATE: September 15, 2021

I. UPDATE

As indicated to the Board at the September 2, 2021 Board meeting, I had inadvertently deleted a couple of sections around internal controls in the Audit Committee proposed revisions to policy 15.1.0. I have now reinstated these sections (2.6.2 – 2.6.4) and highlighted them in the attached document. I have also removed acronyms for clarity.

Following discussions with District General Manager Winqest and Director of Finance Navazio, I have added some clarifications in 2.3.3 and in 2.4.1 to reduce any concerns around potential scope creep; these changes are also highlighted.

Finally, also from discussions with District General Manager Winqest and Director of Finance Navazio, I have deleted Section 2.4.3 which required annual reporting from the Independent Auditor. As was also pointed out by some Board members, that language was more appropriate to the procurement process rather than an annual requirement.

I value the feedback for the Audit Committee from both the Board and from Staff which has been helpful. There were also several other potential changes discussed at the September 2, 2021 meeting. All changes discussed above have been highlighted. As the Board discussions are still ongoing I have deferred making any further changes at this stage other than those identified above which help with clarification and address some key concerns raised by staff.

I look forward to further discussions and a resolution by the Board.



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

PROPOSED REVISIONS FOR DISCUSSION

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 "CAFR") 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 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 practices¹.

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, 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 CAFR.

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.

¹ Source: GFOA Best Practices, Audit Committee



**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 approval.

ORGANIZATION: The Committee shall consist of five (5) voting members. This includes two Board members appointed annually by the 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 approved by the Committee and submitted to the Board of Trustees for consideration. The Committee may retain financial or other appropriate advisors to attend meetings, provide guidance and training, as needed.

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.. 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 for the public sector
- Experience either preparing or auditing financial statements
- Experience with internal controls over financial reporting
- 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.

At-Large Committee members shall be expected to comply with all District policies that apply to volunteers. District Management shall be responsible for providing copies of all relevant policies to Committee members..085

- 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



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

removed or resigns, the Board of Trustees shall appoint a new member to the Committee. 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.² This recommendation would generally preclude the Treasurer from joining the Committee. (NRS318.085 item 4)

- At-Large Members shall be appointed by the Board of Trustees from applicants with appropriate accounting, auditing and financial reporting expertise with 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.

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 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 in the event there are no interested or qualified applicants to fill any future vacancies.

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 "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



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

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 financial statements and Comprehensive Annual Financial Report

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.
 - 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 including the identification of funds to be audited.
 - 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 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 replace the independent auditor and initiate the procurement process (2.2.1).
- 2.3 Facilitate the external audit process.



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

- 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 Comprehensive Annual Financial Report 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 Comprehensive Annual Financial Report and financial statements
 - 2.3.3.5 The effect of regulatory initiatives
 - 2.3.3.6 Off-balance sheet structures
 - 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



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

- 2.3.6 Review and approve 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 Comprehensive Annual Financial Report to the Board of Trustees by the end of December.
- 2.4 Post External Audit Follow up
- 2.4.1 Follow-up on any corrective action identified by the Independent Auditor
 - 2.4.2 Annually evaluate the work of the independent auditor and lead audit partner based on compliance with work plan and engagement letter
 - ~~2.4.3 At least annually, obtain and review a report by the independent auditor that describes:
 - ~~2.4.3.1 the independent auditor's internal control procedures~~
 - ~~2.4.3.2 any material issues raised by the most recent peer review of the independent auditor~~
 - ~~2.4.3.3 any inquiry or investigation by governmental or professional authorities, within the preceding five years regarding any audit performed and any steps taken to deal with any such issues.~~~~
- 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
 - 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 implementation of the findings, if any.
 - 2.5.6 Management will have the responsibility for implementation of identified changes or enhancements.



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

- 2.6 The Committee shall review and provide oversight of framework 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 management's annual assessment of their internal controls for prior year's audit plan.
 - 2.6.3 Review the annual internal control audit plan(s).
 - 2.6.4 Evaluate management's identification of fraud risks, ensure the implementation of anti-fraud measures and that management is setting the tone at the top that fraud will not be accepted in any form.

- 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 CAFR; 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
 - 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.

NOTE: This is predicated upon approval of the current whistleblower policy and may require to be updated dependent upon BoT changes to the whistleblower policy

- 2.9 Reports to Board of Trustees.



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

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 at a minimum of once per quarter. 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 the Committee at least 5 calendar days prior to a Committee's public meeting, copies of all materials which are to be presented by management
- 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.
- 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



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

else as desired by the Committee to review the audited annual basic financial statements including the Comprehensive Annual Financial Report (CAFR) 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.

Attachment

Board Memo –
September 2, 2021
agenda: Board Policy
15.1.0 (with
applicable
attachments

MEMORANDUM

TO: Board of Trustees

THROUGH: Tim Callicrate
Board Chairman

FROM: Indra Winquest
District General Manager

SUBJECT: Review, discuss and provide direction on possible revisions to Board Policy 15.1.0 – Audit Committee

DATE: September 2, 2021

I. RECOMMENDATION

It is recommended that the Board of Trustees:

- 1) Review, discuss and provide direction on possible revisions to Board Policy 15.1.0, **and**
- 2) Direct Staff to return to the Board with a draft of revised Policy 15.1.0 incorporating Board feedback and direction.

II. BACKGROUND

Board Policy 15.1.0, establishing roles and responsibilities of the Audit Committee, was first adopted in 2009 and revised in 2017. The policy was again revised in May of 2020 to more specifically define the role and responsibilities of the Audit Committee as well as to reconfigure the Committee to be comprised of two Board-appointed Trustees and three Board-appointed At-Large members.

Under the current Board Policy 15.1.0, the Audit Committee serves to assist the Board of Trustees in fulfilling its fiduciary responsibilities by providing independent review and oversight over financial reporting, internal controls, and the independent audit of financial statements.

In addition to the scope of the Audit Committee's authority and responsibilities, Policy 15.1.0 provides that the Audit Committee is responsible for managing the procurement process for selection of the District's independent auditor, outlines the role of the Audit Committee through the annual independent audit, and charges the Audit Committee with oversight in ensuring a transparent process for

communicating and resolving complaints received by the District related to accounting practices, internal controls, auditing matters and suspected fraud.

Policy 15.1.0 also provides that the Audit Committee Charter shall be reviewed periodically with recommended changes submitted to the Board of Trustees for their consideration.

This agenda item has been prepared at the request of the Board of Trustees to serve as a starting-off point for discussion of possible revisions to Board Policy 15.1.0.

Note - This item originally appeared on the Board agenda for its meeting of July 13, 2021. However, the discussion of Board Policy 15.1 was deferred in order to allow the Audit Committee to provide its comments and suggested revisions to the existing policy. A discussion of Board Policy 15.1 was agendaized as part of a special meeting of the Audit Committee held on June 29th, as well as appearing on the agenda for Audit Committee meetings held on July 13th, August 10th and August 17th. The Audit Committee recommendations related to Board Policy 15.1 are include as part of this meeting agenda.

III. DISCUSSION

This agenda item seeks to provide the Board of Trustees with the opportunity to review Board Policy 15.1.0, following the first full year of the policy that was amended in May 2020, outlining the roles and responsibilities of the Audit Committee, modifying the structure of the Audit Committee, and providing for an Annual Report from the Audit Committee to the Board of Trustees in conjunction with the presentation of the annual audited financial statements.

Following adoption of the amended Board Policy 15.1.0 on May 6, 2020, a transition plan was developed that led to the appointment of new Committee members on June 23, 2020, followed by the convening of the first meeting of the newly re-constituted Audit Committee on July 29, 2020.

During the course of the past year, the Audit Committee was comprised of two Board-appointed Trustees (Dent and Schmitz) and three Board-appointed At-Large (public) members (Aaron, Dobler, Tulloch).

Through June of 2021 the Audit Committee held a total of 14 meetings, provided oversight to the independent external audit of the District's financial statements for the fiscal year ended June 30, 2020, provided a report to the Board of Trustees specific to the independent audit, served as a forum for review of issues and

concerns related to accounting practices, as well as past financial statements and audits, managed the procurement process for the District's new independent external auditor, and, most recently, has been developing a policy and procedure related to addressing Whistleblower complaints.

While each Board Trustee was appointed to serve a one-year term, the At-Large members were first appointed to provide for one member to serve a one-year term (Aaron) and two members to serve two-year terms (Dobler, Tulloch). Subsequently, committee member Aaron was re-appointed by the Board to serve a two year term, thus providing for staggered two-year terms for all At-Large members. At the same time, Trustee Dent chose not to seek re-appointment following completion of his one-year term, and while the Board of Trustees has re-appointed Trustee Schmitz to a new one-year term, the second Board-appointed seat on the Audit Committee remains vacant. (*Note: Committee member Derrek Aaron has since submitted his resignation, effective July 19, 2021*).

Consideration of Possible Revisions to Policy 15.1.0

The Board of Trustees' consideration of possible revisions to Board Policy 15.1.0 should appropriately focus on the extent to which the current policy and implementation thereof meets the intent of the Board in establishing the Audit Committee and, if not, how best can the policy be revised to improve alignment between Board intent and Committee expectations.

Broad areas for the Board of Trustees to consider include:

- Relationship between the Audit Committee and Board of Trustees
 - Advisory Role
 - Delegation of Authority
 - Independence
 - Final decision-making authority rests with Board of Trustees
- Scope and Responsibilities of the Audit Committee
 - Internal Controls
 - Financial Reporting
 - Independent Annual Audit of Financial Statements
 - Forum for addressing concerns/complaints
- Make-up of the Audit Committee
 - Two Board Trustees and three At-Large Members
 - Process for appointment of Committee Chair

- Meetings
 - Current policy:
 - No less than quarterly
 - Annual meeting to review audited financial statements
 - Practice: Meetings to be scheduled, as needed, to fulfill duties
- Role of Audit Committee through annual independent audit
 - Current Policy:
 - Recommendation for selection of Independent Auditor
 - Approval of Engagement Letter and Audit schedule / work plan
 - Review of “formal reports” provided to auditor by management
 - Practice / Expectation:
 - Review of draft financial statements and notes
 - Review of draft Transmittal Letter and Management Discussion and Analysis (MD&A) sections of annual financial report
- Role of Audit Committee in serving as an independent forum to resolve accounting and financial reporting issues/concerns.
 - Current Policy:
 - Issues are to be referred by Committee to appropriate organizational leader.
 - Practice:
 - Challenge in acting as “independent forum” for resolution of issues self-identified by member(s) of audit committee.
 - Conflict of interest arises when party raising issue or concern is also charged with resolving issue; erodes expectation of independence and objectivity

This report includes, via attachment, a summary table highlighting specific provisions of Board Policy 15.1.0 and related comments that the Board might consider in identifying specific areas where revisions (or clarification) could help to improve the policy and address concerns arising from interpretation of policy language or Board intent.

Audit Committee Recommended Revisions to Board Policy 15.1.0

As noted, the Audit Committee has recently held several meetings where recommended revisions to Board Policy 15.1 were included as agenda items for discussion. The most recent set of recommendations were discussed at the Audit

Committee meeting of August 17. The recommended revisions approved by the Audit Committee at their August 17 meeting have been transmitted to the Board via separate agenda item.

Provided as Attachment A to this Board memo is a table with an outline of existing Board Policy 15.1, with annotations related to sections or provisions where Board discussion and possible clarification may be helpful. These include comments provided by Board of Trustees, and was included in the July 13 agenda item.

In addition, included as supplemental attachments are documents requested by individual Trustees. These include: copies of both the current and prior versions of Board Policy 15.1 and copies of GFOA Best Practices referencing local government audit committees

IV. COMMENTS

Since this agenda item first appeared on the Board agenda for the meeting of July 13th the Audit Committee has also forwarded to the Board of Trustees a draft Whistleblower Policy for Board consideration. The Whistleblower Policy, which was agendized for discussion for the Board meeting of August 10, was removed from the agenda by a majority vote of the Board of Trustees, and has been deferred pending Board review and discussion of Board Policy 15.1.

Attachments:

- Table 1 - Comments Related to Selected Provisions of Board Policy 15.1.0
- Board Policy 15.1.0, adopted May 6, 2020
- Prior Board Policy 15.1.1, adopted November 11, 2017 (superseded by September 2020 update)
- GFOA Best Practices – Audit Committees
- GFOA Best Practices – Internal Control Environment

**ACCOUNTING, AUDITING and FINANCIAL REPORTING
AUDIT COMMITTEE
BOARD POLICY 15.1.0**

Board Policy 15.1 - as amended May 6, 2020	COMMENTS
<p>Preamble</p> <p>The Audit Committee plays a key role with respect to with respect to the integrity of the District's financial information by ensuring those responsible for financial management (management, auditors and Board of Trustees) meets their respective responsibilities for internal controls compliance and financial reporting.</p>	<p>The Audit Committee should be viewed as ADVISORY to the Board rather than given the role of "ensuring" that Board of Trustees meets its responsibilities for fiscal management.</p>
<p>Policy Statement</p> <p>The Audit Committee is to assist the Board of Trustees fulfill its responsibilities...by providing oversight over the District's financial reports, system of internal controls and the independent auditor's assessment of financial statements.</p> <p>The Committee will ensure open communication and maintain strong working relationship with the Board of Trustees, the General Manager, Director of Finance and internal/external auditors.</p>	<p>Emphasis to be placed on ensuring the Independent Auditor - through their own review - objectively assess the government's financial reporting practices. <i>(The AC does not perform the role of the auditor).</i></p> <p>Need to improve working relationship....independent oversight is hampered by adversarial positions versus the Board of Trustees, Independent Auditor(s) and management.</p>
<p>Organization</p> <p>The Committee shall consist of five (5) voting members. Includes two Board-appointed Trustees and three Board-appointed At-Large members.</p> <p>One voting member of the Committee shall be appointed by the Committee to serve as Chair.</p>	<p>There are variations in practice:</p> <ol style="list-style-type: none"> 1) Governing body as a whole (meeting as Audit Committee) 2) Board sub-committee (2 Trustees) 3) Trustees PLUS one or more members of the public 4) Independent public advisory body. <p>Consider establishing that Board Treasurer serve as ex-officio member of Audit Committee</p> <p>Consider adding language to clarify that all members serve at the pleasure of the Board of Trustees - and can be removed from the Committee by action of the Board.</p> <p>Board could consider requiring that Committee Chair be appointed from one of the two Board-appointed Trustees.</p>
<p>Policy Section</p> <p>1.0 Independent Auditor Reports Directly to the Audit Committee Independent Auditor reports directly to the Audit Committee</p> <p>The Audit Committee to maintain free and open communication with the independent auditor and staff</p> <p>The Independent Auditor is to bring to the attention of the Committee any additional work required, beyond the scope contained in the engagement agreement</p>	
<p>2.0 Scope of Audit Committee's authority and responsibilities</p> <p>It is the responsibility of the Audit Committee to provide independent review and oversight of:</p> <ol style="list-style-type: none"> 1) Financial Reporting 2) Internal Controls 3) The independent audit of financial statements 	
<p>2.1 Be independent, effectively communicate and reinforce accountability</p>	
<p>2.2 Manage the external independent audit procurement process</p>	

**ACCOUNTING, AUDITING and FINANCIAL REPORTING
AUDIT COMMITTEE
BOARD POLICY 15.1.0**

Board Policy 15.1 - as amended May 6, 2020	COMMENTS
2.3 Make recommendations to the Board of Trustees and take subsequent action to engage the external auditor for the District's CAFR	Per GFOA recommendations - substitute Annual Financial Report for CAFR (no acronym)
2.3.5 Approve the scope of work and audit plans by June of each year	Clarify to include approval of annual Engagement Letter and audit schedule / work plan
2.4 Facilitate the external audit process	Empahsis on external INDEPENDENT audit process.
2.4.1 Review and approva formal reports or letter to be submitted to the external auditor.	
2.4.2 Provide an independent forum for (external and/or internal resources) auditors to report findings or difficulties encountered during the audit.	
2.4.3 Review auditor's findings and recommendations with management and the auditor	
2.4.4 Review CAFR in its entirety, including unaudited sections and letters	CLARIFY - does review pertain to final annual report or interim drafts? AC expressed concern this past year that they did not review drafts of Transmittal Letter and Management's Discussion and Analysis (MD&A) sections of the CAFR prior to receiving final document.
2.4.5 Follow-up on any corrective action identified	CLARIFY - this follow-up should pertain to correction action identified by the independent auditor, and not necessarily corrective action dictated by the Audit Committee.
2.4.6 Submit a written annual Audit Committee Report to the Board of Trustees in conjunction with the presentation of the annual audit.	CLARIFY - is this the same annual report referenced in section 2.9? The latter speaks to broader scope of report.
2.5 Review financial statements; quarterly and annually for fair and accurate reporting	Currently, quarterly financial reports are presented to Board of Trustees. No formal review by AC
2.5.1 Review any changes in accounting policy	Board MAY refer review of changes to Board Policies
2.5.2 Ensure accounting policies are followed	
2.5.3 Review any off-balance sheet financings.	
2.6 Review framework of internal controls; ensuring management establishes, implements and reviews internal controls on a regular basis for functionality and effectiveness.	
2.6.3 Evaluate management's identification of fraud risks, ensure the implementation of anti-fraud measures and that management is setting the tone at the top that fraud will not be accepted in any form.	Note - requires understanding of management's role to manage fraud risks, as well as independent auditor's role in assessing risk.
2.7 Periodically review the District's Code of Conduct that promotes honest and ethical conduct	Code of Conduct is contained in the District's Personnel Policy Manual (Chapter 2.10).
2.8 To review and refine, as necessary, the 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.	Need to reconcile this section with scope of Whistleblower procedures under development
2.9 The Audit Committee is to submit an annual report to the Board of Trustees assessing the results of its fulfillment of its duties and responsibilities.	CLARIFY - is this a separate report than the Annual Report identified in section 2.4.6, to be presented to the Board in conjunction with the annual audit? Only annual report related to audit process was presnted to the Board (to date).
3.0 Meetings	
3.1 Meetings are to be conducted in accordance with the state's Open Meeting Law NRS 241	While NRS 241 requires that actions of bodies consisting of only elected officials require a majority vote of members, if body includes non-elected a majority of members (present) is sufficient to pass a motion. The Board of Trustees could modify Policy 15.1 to require that a majority of appointed members is required to pass motions.

**ACCOUNTING, AUDITING and FINANCIAL REPORTING
AUDIT COMMITTEE
BOARD POLICY 15.1.0**

Board Policy 15.1 - as amended May 6, 2020	COMMENTS
<p>3.2 The Committee should hold meetings at a minimum once per quarter. All members are expected to attend on a regular basis.</p>	<p>Early discussion of policy 15.1 considered setting a meeting schedule (4 x per year PLUS a special meeting dedicated to review of annual audit report. Board could consider requiring that special meetings (ex more than quarterly) be limited in number and scope. Particularly if attendance at committee meetings is to be "required."</p>
<p>3.3 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.</p>	<p>1) Majority of correspondence generated by Audit Committee member(s); this poses a challenge as it relates to "independent" review by AC of concerns received. 2) Audit Committee members should be providing oversight to independent resolution of issues brought to their attention, and not dictating resolution of self-identified issues/concerns.</p>
<p>3.6 The Audit Committee Chair shall establish the agenda for meetings and provide all briefing materials to members of the public in advance.</p>	<p>CLARIFY - AC Chair works with Board Clerk in the preparation of the agenda and supporting materials.</p>
<p>3.7 An annual meeting is to be held with the independent external auditor, the GM and the Director of Finance, legal counsel and anyone else as desired by the Committee to review the annual financial statements, including the CAFR and auditor's letter of findings.</p>	<p>It is recommended that this annual meeting be a dedicated single-topic meeting and be held following completion of the annual audit and presentation of final audited financial statements.</p>



BEST PRACTICES

Audit Committees

Establish audit committees, made up of appropriate audit committee members, that are responsible for review, oversight, establishing procedures, and providing a written report.

Three main groups are responsible for the quality of financial reporting: the governing body,¹ financial management, and the independent auditors. Of these three, the governing body must be seen as first among equals because of its unique position as the ultimate monitor of the financial reporting process.² An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government'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 management properly develops and adheres to a sound system of internal controls, 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.³

GFOA makes the following recommendations regarding the establishment of audit committees by state and local governments:

- The governing body⁴ of every state and local government should establish an audit committee or its equivalent;
- The audit committee should be formally established by charter, enabling resolution, or other appropriate legal means and made directly responsible⁵ for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services.⁶ Likewise, the audit committee should be established in such a manner that all accountants thus engaged report directly to the audit committee. The written documentation establishing the audit committee should prescribe the scope of the committee's responsibilities, as well as its structure, processes, and membership

requirements. The audit committee should itself periodically review such documentation, no less than once every five years, to assess its continued adequacy;⁷

- Ideally, all members of the audit committee should possess or obtain a basic understanding of governmental financial reporting and auditing.⁸ The audit committee also should have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. Such a financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of audit committee functions;⁹
- All members of the audit committee should be members of the governing body. 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;
- An audit committee should have sufficient members for meaningful discussion and deliberation, but not so many as to impede its efficient operation. As a general rule, the minimum membership of the committee should be no fewer than three;¹⁰
- Members of the audit committee should be educated regarding both the role of the audit committee and their personal responsibility as members, including their duty to exercise an appropriate degree of professional skepticism;
- It is the responsibility of the audit committee to provide independent review and oversight of a government's financial reporting processes, internal controls and independent auditors;¹¹
- The audit committee should have access to the reports of internal auditors, as well as access to annual internal audit work plans;
- The audit committee should present annually to the full governing body a written report of how it has discharged its duties and met its responsibilities. It is further recommended that this report be made public and be accompanied by the audit committee's charter or other establishing documentation;
- The audit committee should establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Such procedures should specifically provide for the confidential, anonymous submission by employees of the government of concerns regarding questionable accounting or auditing matters.¹² The audit committee also should monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior-management override of other controls¹³;

- The audit committee should be adequately funded and should be authorized to engage the services of financial experts, legal counsel, and other appropriate specialists, as necessary to fulfill its responsibilities¹⁴; and
- In its report to the governing body, the audit committee should specifically state that it has discussed the financial statements with management, with the independent auditors in private,¹⁵ and privately among committee members,¹⁶ and believes that they are fairly presented, to the extent such a determination can be made solely on the basis of such conversations.

Notes:

1. For the purposes of this recommended practice, the term "governing body" should be understood to include any elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do not exercise managerial responsibilities within the scope of the audit. The term governing body also is intended to encompass appointed bodies such as pension boards.
2. *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Overview and Recommendations.
3. Securities and Exchange Commission (SEC) Regulation 33-8220, Background and Overview of the New Rule and Amendments. ☒
4. For the purposes of this recommended practice, the term "governing body" should be understood to include any other elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do *not* exercise managerial responsibilities within the scope of the audit. The term "governing body" also is intended to encompass appointed bodies such as pension boards.
5. Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.
6. Sarbanes Oxley Act, Section 301.
7. *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Recommendation 4.
8. *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Recommendation 3. Continuity typically is a positive factor in achieving this goal, a fact that should be kept in mind when considering the appropriate length of service for audit committee members.

9. Sarbanes–Oxley Act, Section 407.
10. In certain limited instances, as noted later, the audit committee will need to meet privately to achieve its goals. If the audit committee constitutes a majority of the governing body, such private meetings may be hampered by sunshine laws and similar open meetings legislation.
11. SEC Regulation 330-8220, Background and Overview.
12. Sarbanes Oxley Act, Section 301.
13. *Internal Control Integrated Framework: Guidance on Monitoring Internal Control Systems* (Discussion Document of the Committee of Sponsoring Organizations COSO, 2007), page 10.
14. Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.
15. It is important that the audit committee be able to meet privately with the independent auditors, as needed, to ensure a full and candid discussion. Governments are urged to amend sunshine laws and similar open meetings legislation to permit such encounters in these limited circumstances.
16. It is important that audit committee members be able to meet privately among themselves, as needed, to ensure a full and candid discussion. Governments are urged to amend sunshine laws and similar open meetings legislation to permit such an encounter in these limited circumstances.

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BEST PRACTICES

Internal Control Environment

Governments should demonstrate a commitment to the framework, assume responsibility for overseeing internal control, develop organization structures and accountability, commit to attracting and retaining competent employees, and hold individuals accountable.

In its *Establishing a Comprehensive Framework for Internal Control (Framework)* best practice, GFOA recommended that state, provincial, and local governments adopt the Committee of Sponsoring Organizations' (COSO) *Internal Control—Integrated Framework* (2013) as their conceptual basis for designing, implementing, operating, and evaluating internal control so as to provide reasonable assurance that they are achieving their operational, reporting, and compliance objectives. To support governments' efforts in this area, GFOA is developing best practices that explain how to implement each of the five components of that framework. This best practice focuses on the first of those five components, the control environment, which the COSO has defined as a set of standards, processes, and structures that provide the basis for carrying out internal control.

GFOA recommends that governments do all of the following to establish a strong internal control environment:

1. The governing body, upper level management, and all levels of staff throughout the organization should demonstrate a commitment to the framework, as follows:
 - Officially adopt the framework (governing body);
 - a. Adopt a policy to incorporate the implementation, maintenance, and updating of the framework into the government's strategic goals (governing body);
 - b. Develop standards of conduct for employees and provide training on those standards;
 - c. Require management and employees to sign a statement that they will follow the standards of conduct and to reaffirm that commitment periodically; and

- d. Include compliance with standards of conduct as part of employee evaluations to ensure accountability.
2. The governing body should assume responsibility for overseeing internal control by:
 - a. Actively overseeing management's development and implementation of the framework;
 - b. Actively monitoring the performance of the framework;
 - c. Obtaining training about the nature and purpose of internal control sufficient to allow members of the governing body to meaningfully perform their oversight function with the assistance of an expert;
 - d. Obtaining expert advice, independent of management, to help it perform its oversight function if no member of the audit committee possesses that expertise;
 - e. Establishing an audit committee made up of members of the governing body;
 - f. Documenting that it has reviewed the framework and its updates;
 - g. Approving significant control-related policies; and
 - h. Determining how often policies and procedures need to be reviewed, reaffirmed, and updated.
 3. Management should develop organizational structures and ensure staff accountability by:
 - a. Creating a formal organizational chart for both the government as a whole and for each of its departments;
 - b. Requiring written procedures for important government processes (for example, payroll);
 - c. Developing flowcharts of each significant process;
 - d. Maintaining electronic copies of process flowcharts to facilitate updating;
 - e. Identifying responsibilities for workflow approvals in their systems; and
 - f. Making sure systems incorporate compensating controls.
 4. Governments should commit to attracting and retaining competent employees by:
 - a. Developing comprehensive job descriptions;
 - b. Ensuring that hiring panels include experts in the desired skill sets;
 - c. Providing opportunities for employees to gain continuing professional education to stay current in their field;
 - d. Encouraging membership in professional organizations to develop networking;
 - e. Supporting the development of succession planning;

- f. Cross-training staff;
 - g. Thoroughly documenting the responsibilities of each position and appropriate processes for succession planning;
 - h. Providing managerial training, in addition to technical training, for staff members who will be promoted;
 - i. Requiring that supervisors give staff members hands-on training on key responsibilities; and
 - j. Developing an ongoing mentoring program to enhance employees' skills.
5. Governments should hold individuals accountable for their internal control responsibilities by:
- a. Preparing comprehensive, fact-based performance appraisals;
 - b. Providing performance appraisals on a timely basis;
 - c. Taking disciplinary action if conduct is not consistent with expected performance;
 - d. Including internal control goals as part of employee performance reviews;
 - e. Identifying zero-tolerance policies (e.g., theft) and adhering to them; and
 - f. Ensuring that union agreements clearly delineate responsibilities up front.

Notes:

1. If the governing body is elected, rather than appointed, the term *governing body* would apply to both members of the governing body and the elected officials to whom they report

This best practice was previously titled Framework for Internal Control: The Control Environment.

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