

MINUTES

AUDIT COMMITTEE MEETING OF SEPTEMBER 28, 2022 Incline Village General Improvement District

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chair Ray Tulloch on Wednesday, September 28, 2022 at 2:02 p.m. via Zoom.

A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*

On roll call, present were Raymond Tulloch (Committee Chairman), Mick Homan (Member-At-Large), Kendra Wong (Trustee), and Michaela Tonking (Trustee). Vito Brandle (Member-At-Large) joined the meeting at 2:04 p.m.

B. PUBLIC COMMENTS

Cliff Dobler commented that he wanted to bring to the new Audit Committee the written communication that was item 6 under general business. He stated there were 3 pieces of communications in there all having to do with costs being recorded in the construction and progress account and then being distributed out as either an operating expense or a prior period adjustment or being capitalized as an asset. He mentioned that number 2 had a series of exhibits that were not in that communication. He stated he does not think the communication will mean a lot unless it includes the exhibits, which he sent over to Audit Committee Chairman Tulloch about 20-30 minutes ago. He stated as you look at the communications, he has probably done about 20 of them regarding the same subject matter and he will let Audit Committee Chairman Tulloch take it from here about the idea of bunching things into one account and then later making decisions on spreading it around to various accounts.

Audit Committee Chairman Tulloch asked that Staff forward the referenced email from Mr. Dobler to the Audit Committee Members.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Tulloch asked for changes. Trustee Wong requested that General Business Item D.7. be moved to the beginning of the agenda given that there are time constraints for some of the Audit Committee Members. She also requested that General Business Item D.5. be reviewed thereafter and that item General Business Item D.6. be removed as correspondence has been received. All Audit Committee Members were ok with the changes. The agenda was approved as revised.

D. GENERAL BUSINESS ITEMS (for possible action)

D.1. Election of Officer of the Audit Committee – Chair – to take effect immediately after this meeting is adjourned (was General Business Item D.7.)

Trustee Wong made a motion to nominate Trustee Tonking as Chair of the Audit Committee. Audit Committee Member-at-Large Vito Brandle seconded the motion. Audit Committee Chairman Tulloch called the question and the motion was passed unanimously.

There was a question as to who should chair the remainder of this meeting. Upon brief discussion and confirmation, it was determined that Audit Committee Chair Tulloch would chair the remainder of this meeting.

D.2. Review, discuss and possibly update the Audit Committee Long Range calendar (was General Business Item D.5.)

Audit Committee Chairman Tulloch asked if there were any changes to the long range calendar. Trustee Wong stated in looking at the parking lot items and the items slated for consideration, the items look like carry over items from the last Audit Committee. She suggested that the new Audit Committee establish new priorities going forward. She proposed that each Member identify their priorities going forward, send them to the District Clerk to be compiled and have her work with Trustee Tonking to identify the list of priorities for this Audit Committee going forward. All Audit Committee Members were ok with the suggestion.

D.3. Introductions – New Committee Membership (was General Business Item D.1.)

a. Introductions of Audit Committee Members and Staff

Individual introductions were made by each Audit Committee Member and Staff Members whom were present to include District General Manager Winquest, Director of Administrative Services Susan Herron, District Clerk Melissa Robertson, District Controller Martin Williams, District Communications Coordinator Kari Ferguson and General Counsel Melissa Crosthwaite.

b. Overview of Purpose and Scope of Audit Committee 15.1.0

Audit Committee Chairman Tulloch stated between the Board of Trustees and the past Audit Committee, there have been several reviews and modifications to Policy 15.1.0 over the past two years. He stated he thinks it is fairly well written. He referenced an accusation that has been leveled that the past Audit Committee overstepped its role so he thinks it is important to look at section 2 regarding the Committee's scope and responsibility. He stated that this is an Audit Committee, not a Finance Committee or Investment Committee and the role of the Audit Committee can be found in section 2. Trustee Wong mentioned that the Board will be looking at Policy 15.1.0 and potential revisions at the Board of Trustees meeting later in the day.

c. Discuss Audit Committee Annual Report (most recent)

The Audit Committee reviewed the submitted material, which included the update on what the Committee did over past year.

d. Discuss Audit Committee Report on June 30, 2021 Audit

The Audit Committee reviewed the submitted material, which included the Audit Committee Report on the June 30, 2021 audit. It was noted the report has been submitted to the Board of Trustees.

e. Provide Direction on Meeting Schedule

Audit Committee Chairman Tulloch mentioned that as per Policy 15.1.0, it is recommended that there should not be more than 2 meetings per quarter, with a minimum of 4 meetings per year.

D.4. Receive a Verbal Update from Davis Farr (Auditors) on Financial Audit of Fiscal Year Ending June 30, 2022, including the items below – Ms. Jennifer Farr (*was General Business Item D.2.*)

a. Schedule/Work Plan for Financial Audit of Fiscal Year Ending June 30, 2022

Ms. Farr provided an overview of the submitted material beginning with working schedule of the audit timeline. She noted they have completed planning audit procedures where they look at internal controls and are

planning for the final audit. She mentioned they look forward to starting the final audit on October 3, 2022. She noted they will start in their office remotely and then be onsite the week of October 10, 2022. She stated the audit takes several weeks of fieldwork, and then they will be reviewing reports and ultimately sharing draft reports with the Audit Committee while going over any audit findings as they progress.

b. Communication(s) from Auditor regarding the Financial Audit

Ms. Farr provided an overview of a communication from their firm to the Audit Committee informing the Committee about the scope and timing of the audit. This also includes information on what they consider the audit risk areas this year. She noted they will do additional testing on audit risk areas. There are audit risk areas that have been listed for consideration this year. One of the risk areas is related to the new lease accounting standard that is required to be implemented; anytime there is a new accounting standard, there is always an increased risk of error. She noted they will be working closely with the District Staff to ensure the accounting standard is correctly implemented and disclosed. The second risk area is related to capital assets. She stated capital assets has been a concern in the prior audit. They will be looking closely at capital assets to ensure the numbers are correct and that things are being capitalized in accordance with the District's policies. The last risk area is related to the change and the presentation of certain governmental funds that will now be presented as enterprise funds. She mentioned they will work close with the District Staff to ensure the accounting presentation issues are corrected in this year's annual report. She stated part of their requirement is to inquire with the Audit Committee about whether or not they are aware of fraud or if there are any suspicions of fraud. She noted that if so, this can be mentioned during this meeting, or she can be reached directly. She mentioned that if there are any concerns either now or throughout the year, to reach out to discuss so that any concerns can be addressed. Audit Committee Member-at-Large Mick Homan asked what is considered to be material? Ms. Farr responded that their firm uses materiality as a threshold of either the larger of total assets or total revenues in each opinion unit. She noted that each fund that is presented on the financial statement is its own opinion unit, so there will be different materiality for different funds that they are auditing. An audit of a government agency is like auditing multiple companies, so each company is looked at differently and with a different materiality threshold. She stated generally speaking, it is 1% of the total assets or the total revenues from the

prior year for each fund. Audit Committee Member-at-Large Vito Brandle asked if there is anything from previous years or other areas where the Audit Committee would want to spend more focus? Ms. Farr responded that all of the internal control recommendations that were communicated last year will be followed up on to determine if they are resolved. She stated there was some communications about purchasing policy, capital asset, etc. She stated they are required to follow up on outstanding items from the prior year. Trustee Tonking asked how the risk area, that is related to capital assets, will play in with the expanded scope that was approved for their work? Ms. Farr responded that the risk areas that were identified in the letter is completely independent of any agreed upon procedure work they are doing. Trustee Wong asked if there is anything that is up and coming from the Governmental Accounting Standards Board (GASB) that the Audit Committee should be aware of? Ms. Farr responded that GASB has been very busy and they are working on a number of new standards. As of now, they are referring to something as the “big 3” which will be an overhaul of government accounting from a financial reporting standpoint. It will affect the way the financial statements look, the disclosures and revenue/expense recognition. These changes will not be implemented for about 5 years. Audit Committee Chairman Tulloch asked how the updated capitalization and date would be handled in the audit? Ms. Farr responded that it was unclear as to what the effective date was on the new policy; it was decided that January 1, 2022 was going to be the effective date of the new policy. She explained that if they look at a transaction before that date, it will fall under the capitalization rules of the old policy, and anything after that date will be subject to the new policy. Audit Committee Chairman Tulloch asked if it would be based on the expenditure date or the project closing date? Ms. Farr stated it is either the date the transaction was initiated or the date it was paid but she cannot recall. District Controller Martin Williams mentioned it is based on the payment date. Audit Committee Chairman Tulloch asked if materiality is based on 1% or 1 million dollars? Ms. Farr stated it is 1% of the higher of total assets or the total revenues based on each individual fund. Audit Committee Chairman Tulloch asked if they have been receiving all of the materials required from Staff? Ms. Farr responded yes.

D.5. Receive Verbal Update from Davis Farr (Auditors) on the following Supplemental Engagements – Ms. Jennifer Farr (*was General Business Item D.3.*)

a. Purchasing/Contracts

Ms. Farr reported they started the purchasing and contract procedures in late summer; there is a lot of paper to follow around with looking at purchase orders, invoices and Board approvals. She noted that their procedures do include talking to the individuals that approved transactions to verify they did receive the goods and services. She stated they are near completion and they have a draft report that has been circulated to management; they are currently going through the recommendations on the report and verifying that their facts are straight. She anticipates the draft report will be circulated to the Audit Committee shortly. She stated that one recommendation will be pointing out some ambiguity in the current purchasing language. The second recommendation will be regarding processes and how to avoid any process issues.

b. Capitalization

Ms. Farr reported that the District's Finance Staff had to close the books for the end of the fiscal year prior to them getting started on the capitalization of assets. She stated they recently started this process; the District's Finance Staff has given them all of the information needed to complete this; there is no draft report just yet. Audit Committee Chairman Tulloch asked if some of their findings would be incorporated with the Tyler implementation and procurement manual? Ms. Farr responded yes.

D.6. Written communications from public (memorandums to the Audit Committee since its last meeting) *(see General Business Item C. above – removed as correspondence has been received.)*

D.7. Receive Verbal Updates from IVGID Staff on the following Items – Director of Finance Paul Navazio *(was General Business Item D.4.)*

a. Tyler Financial System Implementation Update

District Controller Martin Williams reported that the Tyler Financial System implementation is not going as smoothly as they had wanted it to. The issue they are running into is the electronic payment (ACH) file that needs to be uploaded to Wells Fargo. He stated they recently found out that the format they had been using is a historical format that is no longer used. He stated they need to switch over to the new format that Tyler supports. He noted that as soon as this is completed, the accounts payable will be fully implemented and up and running in Tyler. He explained that the next step will be to get

contract management and inventory management up and running, with the final step to have the budget process in Tyler so they are ready for the next fiscal year. He noted that once the accounts payable is up and running, they have training scheduled in early November with Tyler to go over the contract management and inventory management processes. The final step with the budget process implementation into Tyler will likely begin in early December or January. Audit Committee Member-at-Large Brandle asked if the CSV upload into Wells Fargo is for invoicing through Wells Fargo? District Controller Martin Williams responded that it is not for invoicing but to pay invoices (i.e. electronic payments to vendors). Audit Committee Member-at-Large Vito Brandle asked if everything has to be done via CSV, or if there is any direct connection between Wells Fargo and Tyler? District Controller Martin Williams stated he does not recall the answer to that question but he does know that any direct connection between Wells Fargo and Tyler requires additional services at an additional charge. Audit Committee Member-at-Large Brandle mentioned that as things potentially change with Wells Fargo moving forward, the District might be at the mercy of others in line when it comes to uploading the CSV, so it may be worth the additional cost.

b. Finance/Accounting Manual Update

District Controller Martin Williams reported this item has been placed on hold due to the Tyler implementation, audits and year-end. District Staff will be getting back to this soon. The manual is 90-95% complete that this time. He mentioned they will be working on filling in missing data that the consultant needs to finalize the manual. Once the Tyler implementation or audit is complete, there will be more time to complete the manual; he does not expect the process to take more than 2 weeks to complete.

c. Purchasing Policies (20.1.0 and 21.1.0)/Purchasing Procedures

District Controller Martin Williams reported the purchasing policies were approved by the Board of Trustees. The Staff is being trained to ensure that everyone is following the new policies. He noted that many of the auditor's recommendations regarding purchasing are addressed in the new policy. He stated some of the issues that were found by the auditor are already being addressed with Tyler. Audit Committee Chairman Tulloch inquired about how Staff is doing with Tyler and how the training is going? District Controller Martin Williams stated the Staff is adapting to it very well and he

is impressed with how quickly Staff had adjusted to the new processes. He mentioned training has been completed on the requisition requests, which become purchase orders, as well as training on journal entries. He also mentioned that project management has been turned on and is being used. He stated that once Tyler is up and running, it will be a big step forward from enterprise; there are many features that it has that they have always wished enterprise had. Audit Committee Member-at-Large Homan mentioned that it would be nice to see what has been done to put all of the historical issues to rest and what has been done to improve the processes in efforts to move forward instead of going back in the past. District Controller Martin Williams agreed and mentioned with the new Tyler implementation, many of the internal controls will be changing and they do not want to make any assumptions about how well Tyler will handle those. He stated they will be adding these type of issues to the manual and internal controls and will be happy to bring updates to the Audit Committee. Audit Committee Member-at-Large Brandle asked if there are any ripple effects seen on personnel in terms of possibly needing more personnel to effectively run Tyler? District Controller Martin Williams stated Tyler should allow them to spread out the work more so that more personnel is not needed. He stated that with Innoprise, all purchase orders went through the finance office to be entered, approved, etc. He is hopeful that Tyler will reduce the workload. Audit Committee Chairman Tulloch thanked Staff for their work on the implementation.

E. MEETING MINUTES (for possible action)

E.1. Meeting Minutes of June 16, 2022

Audit Committee Chairman Tulloch asked for changes and he stated he reached out to the prior Audit Committee Members for their feedback on the minutes. He noted that on page 8 of the minutes, the last paragraph, line 4, says "investment committee" and it should be "audit committee". He noted that on page 12, under item D6, there is mention that there were changes to the prior minutes but no mention of what the changes exactly were.

Hearing no further changes, the meeting minutes were approved as revised.

F. PUBLIC COMMENTS*

There were no public comments made during this public comment period.

G. ADJOURNMENT (*for possible action*)

The meeting was adjourned at 2:56 p.m.

Respectfully submitted,

Melissa N. Robertson
District Clerk