

## MINUTES

### **AUDIT COMMITTEE MEETING OF JUNE 30, 2020 Incline Village General Improvement District**

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Matthew Dent on Tuesday, June 30, 2020 at 4:00 p.m. at the Chateau located at 955 Fairway Boulevard, Incline Village, Nevada. This meeting was conducted virtually via Zoom.

#### **A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS\***

On roll call, present were Trustees Matthew Dent and Sara Schmitz. Trustee Tim Callicrate was absent.

Also present was Staff members Controller Lori Pommerenck and Director of Finance Paul Navazio.

There were no members of the public present (State of Nevada, Executive Directive 006, 016 and 018 and 021).

#### **B. PUBLIC COMMENTS\***

Linda Newman said good afternoon; she respectfully requests this Committee require Staff and others to provide written reports on the substantive issues they are directed to address and these written reports be included in the Board packet. Staff and the Attorney's verbal reports preclude this Board and our citizens from studying the information and coming prepared with informed comments, direction and relevant questions at the meetings. Background information and the materials being referenced should also be included in the packet. On today's agenda she is specifically referring to Mr. Winquest's verbal report on the whistle blower process. Clearly this update is important enough to be documented and the current process as it exists should also be provided. This also applies to Counsel Nelson's findings and research on the District's compliance with Dillon's Rule and the comparison of IVGID employee rewards/incentives to Washoe County. Although the agenda item refers to activities and an email, as well as rewards/incentives these are not provided. The same omission occurs in neglecting the specific citations of NRS and other applicable laws being referenced. The verbal and written report from Mr. Navazio has omitted any written report on the 14 points of errors in the 2019 CAFR and has omitted the 14 points under review. The spreadsheet of reconciling the budget to the State Forms has exceeded my comprehension. She is only aware of this Board approving the State forms and am unaware of the Board approving any other Budget. She does not know what is being reconciled. She hopes this Committee understands and can explain it. For your consideration, she would also like to recommend that the Audit Committee and its new members receive training from an independent internal auditing professional. Perhaps, this Committee can reach out to Washoe County or Carson City or another Nevada governmental agency and engage the individuals that

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provided training for their Audit Committee. She also strongly urges you to accelerate the timing for the training and the inclusion of these new members' participation on this Committee.

Aaron Katz said that he was encouraged when he saw the new makeup and what he thought was going to be a policy where the questions could be directed to the committee like items D.2. and D.3. So on June 18 he sent an e-mail to the Board regarding refunds of the Recreation Fee. He never received an acknowledgement and it was not included on the next agenda. On June 27, he sent a follow up e-mail to Trustee Schmitz and asked for it to be an item on this agenda similar to D.2. or D.3. No acknowledgement or communication back. He does understand that this request may not have been in enough time but is for the next one so he asks it to be agendaized on the next meeting and get a response from the attorney.

Margaret Martini said she is looking forward to the addition of Mr. Aaron, Mr. Dobler and Mr. Tulloch on this Committee. She is very appreciative of their willingness to volunteer their time and expertise to provide vital oversight assistance to our Board for the benefit of everyone in our community. She is hopeful that the Audit Committee will encourage other members of the Board and Senior Staff to establish citizen advisory committees. Our community has dozens of successful, talented and experienced professionals willing to volunteer and serve on these committees to help the District formulate its strategic plans, budget and implement multi-year capital projects and find viable resources and solutions to existing problems. As the issues she is most interested in are verbal reports, she will await the upcoming discussion. She does hope that in the future, more written material will be provided in advance so that she may have an opportunity to publicly express her views at the start of the meeting.

Cliff Dobler thanked the Board members that voted to allow him to be on the Audit Committee and that he will continue to work hard as he has done in the past. He wants to talk a bit about the restating the 2019 Comprehensive Annual Financial Report. Tonight, we will hear verbally about the fourteen errors in the 2019 CAFR delivered in early January by Linda Newman and himself. We will be adding between five and ten more points. The materiality of the errors cannot be looked at as the District as a whole but is required for each major fund and as such, a restatement should occur. The largest error was capitalizing approximately \$3.1 million of repairs to the effluent pipeline rather than charging the amounts off as an expense. This error's impact on the 2019 CAFR turned the net operating income of the Utility Fund from a positive \$2.5 million to a loss of almost six hundred thousand. The second largest error is to report in the statement of activities that the six million seven hundred and fifty-six thousand four hundred and ten dollars of the facilities fees collected from property owners for community services and beach recreation venues is a general revenue. That error suggests that the facility fees can be used to pay for expenditures in the General Fund and the Utility Fund; totally incorrect. We will be adding to the fourteen points the proper reporting of sales of assets and the misuse of segmented information as a footnote for special revenue funds. Segmented information can only be used for enterprise funds. The list will be expanded

over the next two weeks. Consideration should also be given to putting the one hundred page CAFR on a diet. Only about fifty percent is actually audited. The twenty pages of the statistical section should be reviewed to determine the necessity to report this information. It is probably highly corrupted, never been audited, and who knows if it is correct or not.

Frank Wright said that he is a candidate for the Board and that he wants to congratulate the Board for selecting the outstanding members you selected as it is a major, major improvement to the way things are done. As we move forward with the financials, the biggest and most outrageous problem we have is these punch cards. Who in the heck created this mess? We have a mess of inequality that runs rampant in our community. They are misused, abused and just absolutely a disaster. You are not going to be able to fix it so you will have to eliminate them. You have no idea how they are being used and it is horrible and there is some lady on Craigslist who was trying to buy one. The value that is assessed varies from parcel to parcel and from community to community Crystal Bay to Incline Village – needs to be adjusted and it needs to be fixed. As we move forward, he hopes you look at these things and find a better way of doing it. Mr. Wright concluded by stating that he hopes you will have them accompanied by a picture pass person and not just by a punch card as they are shuffled all over the community and they go to everybody.

Audit Committee Chairman Matthew Dent said that he wanted to pointed out and state that Mr. Tulloch, Mr. Aaron and Mr. Dobler are all on this call; these are the three future member of the Audit Committee and he wanted to make it official.

**C. APPROVAL OF AGENDA (for possible action)**

Audit Committee Chairman Dent said that was going to move General Business Item D.5 to D.0 so that the Audit Committee can review the status of where we are at and then asked for any other changes; receiving none, the agenda was approved as amended.

**D. GENERAL BUSINESS ITEM (for possible action)**

**D.0. Review and discuss implementation of Board Policy 15.1.0 (Audit Committee) as amended by Board action at the meeting of May 6, 2020. (moved from General Business Item D.5.)**

Audit Committee Chairman Dent said that, as of the last meeting, we are twenty-two days ahead of where we were to be, the Board appointed three new members, and Trustee Schmitz is putting together a list for training. Trustee Schmitz said that she wanted to thank all of the eight candidates that applied and who were interested in helping us out with this endeavor. She hopes that we get some more Citizen Advisory Committees going forward. Where we are right now is in the process of putting together training for the newly appointed members, she reached out to Washoe County and Washoe County doesn't have any official training.

Trustee Schmitz continued by stating that she and Staff are working to reach out to the POOL/PACT that is similar to the onboarding of a new Trustees – Open Meeting Law training, Ethics training, and Good Governance training and that we will be trying to get something scheduled to complete that training. Trustee Schmitz said that she also requested that the Director of Finance provide the completed budgets and that the 4404 forms be shared. Her goal is to have all this training thing set up and delivered here shortly in July however some of it will depend on POOL/PACT and how they are able to do things via Zoom. This will be followed with getting them engaged and involved. Trustee Schmitz concluded by saying that she still thinks we will be ahead of schedule and looking forward to working with all of them.

**D.1. Verbal Report from Interim District General Manager Indra Winqest: Update on the whistle blower process for anonymous reporting by employees, reporting through the website by the public, and the plans with target dates for communicating to employees and the public.**

Interim District General Manager Winqest gave an overview with the highlights being:

- Had some discussions – was working with Trustee Schmitz on this item.
- Changing the current process, a lot of questions came up with Legal.
- Two aspects – confidential with the employee and how a member of staff can report anything that this staff member might find useful and then members of the community submittals.
- Employee side – questions about public records, how do we ensure as much confidentiality as possible, what does that mean if there is a public records request.
- Before we bring this back to the Board for review and approval, we will sort through these items.
- Information Technology is involved and looking at different possibilities.

Audit Committee Chairman Dent said previously any complaints would be sent to the District Clerk and now they are being forwarded to the Audit Committee Chair. Interim District General Manager Winqest said yes, that is correct and that change has been made. Trustee Schmitz asked what was the target date for having a solution on the confidential employee submittal and then the public side. Interim District General Manager Winqest said ideally, Staff would like to get this wrapped up by the next Audit Committee meeting so July or August. District General Counsel Josh Nelson said the balancing test is where we want to make sure whatever process that is set up is confidential; he looks forward to working on that to get to finalization.

**D.2. Verbal Report from Director of Finance Paul Navazio: Share with the Audit Committee the spreadsheet developed by IVGID's Controller for**

**reconciling the budget to the 4404 State Forms and status of Staff's review of the 2018/2019 CAFR (14 points of errors in the CAFR from Cliff Dobler and Linda Newman dated April 7, 2020).**

Director of Finance Paul Navazio gave a verbal report with the following being the highlights:

- ✓ Got a request to help understand how the budget forms work together.
- ✓ Spent some time with Trustee Schmitz to walk through the original reconciliation that was included in May 27 packet; clarified, modified and noted that it is a work in progress.
- ✓ The outcome was a preview or update on what we working on and still working on Trustee Schmitz' suggestions.
- ✓ Asked the District's Controller to give an overview of the reconciliation and then get the Audit Committee's support to get refinement.

Director of Finance Navazio said that there really isn't a full roll up on the State forms. The way to look at the schedule is that it asks one to look at the component parts and the District's Controller will go over that. There is not a convenient roll up and that is the reason why question comes up so it is appropriate that it be addressed. District Controller Lori Pommerenck gave an overview of the reconciliation that was provided in the Board packet of May 27, 2020 (on pages 21 and 22) and updated on page 4 of tonight's Board packet. Trustee Schmitz said that one of the things that she told the Director of Finance that she would do is to go out to opengov and see if they did in fact match for revenue and expenditures; she did verify those top numbers, it is in opengov, and the numbers do match. Trustee Schmitz then asked that Staff explain the revision that is going to be made to this so it truly matches the 4404 form as it relates to Community Services and Beach fund? District Controller Pommerenck said that there will be additional columns to break out the Community Services capital and debt and they will have an additional four more columns for operating, capital and debt and the same will be done for the Beach fund. Trustee Schmitz said and that is because that is the way it is on the 4404 form - correct? District Controller Pommerenck said yes, that is correct. Director of Finance Navazio said that the more detail we can show, the easier it is to understand the roll up. Trustee Schmitz asked what are the next steps with this effort? Director of Finance Navazio said continue to refine this reconciliation presentation and that it would be helpful, if anyone is interested, to have some additional meetings with Trustees and/or the members of the new Audit Committee to help gain understanding. Staff wants to get more input to get this to be intuitive. We also need to determine how much focus we want to spend on the State forms and then how we present the budget to our residents so we have more work to do on that piece. Staff does have to maintain the State forms and perhaps we shift the focus to present the budget so it is more digestible and presentable to the community and not use the form to present the budget to the community. District Controller Pommerenck said she appreciates the feedback as she works

with it every day and that the general ledger is there. It is just how we present it as we have varied wants on reporting. Director of Finance Navazio said that we have to strike the balance as we can show it any number of ways and we don't want that statement to give rise to the notion of the District having multiple sets of books so we have to be very careful about tying back and reconciling but we need to settle on how people want to see it as we have to be careful. Trustee Schmitz said that she wants to use the tools and doesn't want to spend quite so much time on custom human created reports as they are error prone as we are all humans and we all make mistakes. Audit Chairman Dent thanked Staff and Trustee Schmitz for all the work that has been done and said that when he first got on the Board there were four or five sets of books so now we are down to two. Director of Finance Navazio said that he appreciates the comments about verbal versus written and that he would be happy to follow up with a document that folks can point to and that we can share and get feedback upon. The Audit Committee has referred the original fourteen questions and that there have been other issues that have been referred to. It was stated, by one of the callers, that more are coming, keep them coming and we will work through them. The summary for today is that Staff has done a fair amount of research and looking into the history. Each of these issues have been categorized because some would fall potentially under the errors and omissions, which is a factual misstatement, transactions are missing or just a wrong number so that is one category. There were a number of questions that speak to the proper accounting treatment and practice which is a different group of issues. Then there is a group of issues that, as a working title, is categorized as difference of interpretations or opinions. Another way to group these issues is, without regard to passing judgment on any issue or concern that has come up, is that there should be some thought given to if it is something that needs to be addressed, what is the proper next step in terms of resolution. On the matrix for disposition of an item, as has been suggested one option would be to correct the 2019 CAFR, publish updated CAFR, update the audit opinion and refile with the State of Nevada. Another viable option for some of these issues is that we need to consider is to make a prior year adjustment or correction and that could be handled in the preparation of the 2020/21 CAFR. This method is not uncommon, a prior year adjustment, and then there are two other categories – hindsight missing information or misworded or misstated which Staff can clarify and make note on the upcoming CAFR such as authority to assign fund balances and leases properly shown or not shown in one of the schedules. We can still address those and clarify going forward, and from his perspective, the threshold to go back and republish the 2019 CAFR, particularly at this point, is pretty high. Barring any issue that rise to that level, and he has not concluded that any of the issues raised rise to the level, Staff might make a prior year correction as we prepare the 2020/21 CAFR and that would be reviewing the capitalization policy. Director of Finance Navazio said that is the general update and that it was interesting to hear some speakers who have forwarded some of this information and say it is egregious and in looking at some of these issues, such as enterprise versus special revenue, punch card accounting, and the central services overhead rate, he would like to assure

everyone that he has yet to come across an issue that remotely suggests that anything Staff is doing in the financial statements is improper and/or illegal which he thinks would be a very high threshold to go back and correct. That said, all of these issues are worthy of discussion in moving forward and how we treat them and to what extent we go back and make any adjustments going forward and more importantly how we want to go about consistently treat accounting treatment for some of the transactions that are at the core of some of these concerns. He is happy to bring this to somewhat of a closure as we are here, at June 30, 2020, and none of these issues rise to the level of reproducing another 2019 CAFR and refiling with the State of Nevada. Audit Committee Chairman Dent said that you laid out three different boxes and will you be bringing that back to us at the next meeting so we can start to address each of those? Director of Finance Navazio said yes and that he can review that with the new and current Audit Committee members. There are issues that need to be corrected which are legitimate issues and that we need to get clarification for consistency and that he is not dismissing these however the appropriate vehicle is moving forward with our current year financials and beyond. Audit Committee Chairman Dent asked if Staff could put together a list of things that rise to level of corrections and those that aren't as big of a deal? This is the first pass as you were new at the time or not even on board so we wanted to give you the first pass and then decide or see if we need a consultant. Trustee Schmitz said that one of the things that we have talked about as we embarked on this effort was to make sure we had things in writing so we don't get asked the same questions and have your research and analysis recorded somewhere; what is the timetable for having actual written responses to these particular issues you have brought forward? Director of Finance Navazio said that it could be as early as the next Audit Committee meeting depending on when it is scheduled and/or the Board items from tonight. There will be a summary of the key observations, findings and reference documentation to support a recommended disposition, in a matrix form, that could be put together fairly quickly. Trustee Schmitz said that would be great and would be very helpful as we just don't want to continue to have the same questions brought up and discussed. It's much better to have things written down so we can say here it is, we did this and this is what we learned. Director of Finance Navazio said that he is happy to shoot for that and that he will start focusing on the most significant ones so as to have them at the next meeting. He also stated that he is happy to review them, in advance, with the Audit Committee members as well.

- D.3. Verbal Report from District General Counsel Joshua Nelson: (A) Update on his findings and pending research into Dillon's Rule as it relates to specific District related activities, including but not limited to the email submitted by Ms. Heirshberg and (B) Update on how our employee rewards/incentives compare to Washoe County and their compliance with NRS and other applicable laws.**

District General Counsel Nelson gave his PowerPoint presentation which is incorporated herewith by reference. Trustee Schmitz said for the items of employee rewards and celebrations, that she believes that Washoe County, it has been brought to our attention anyway, has a very, very small budget for these types of activities so did you do any research to determine why Washoe County has such a limit? District General Counsel Nelson said that he started that research and that he would like feedback on how detailed you would like to get. Audit Committee Chairman Dent said that he feels like in order to completely tackle this issue, it needs to take into account what our budgets are for each of these things, do a legal review of the General Manager's spending authority for budgeted and unbudgeted items, and make it a future agenda item to completely close the loop on this item. We hear that the General Manager has fifty thousand dollars spending authority and what does that mean as that can help us to make a lot of progress. Trustee Schmitz said that the term "reasonable" is used quite frequently and we need a definition in some way and the other things are we have enterprise funds, special revenue funds and the general fund and is there any difference based on the type of fund? And where the monies actually come from? District General Counsel Nelson said that reasonable is a legal term and having a policy is required. Trustee Schmitz said wants to be clear on what this committee is asking District General Counsel to do as she thinks there is some additional work to be done to identify the policies that need to be drafted or are their policies in existence that need to be reviewed as she thinks that might be a good next step – do you agree? Audit Committee Chairman Dent said he totally thinks that would be a good next step. Interim District General Manager Winqest said that Staff will make sure that we get District General Counsel Nelson all of our current policies, budgets, etc. and any history he may need. District General Counsel Nelson said that he was not suggesting that there is not a current policy or an inadequate one rather that it is high level before looking at the District's existing policies.

- D.4. Review, discuss and possibly take action related to the following communications that have been received and are included: (Requesting Trustee: Sara Schmitz) *(due to time restraints, this item was not discussed)***
- D.4.a. May 26, 2020 e-mail communication Rec Fee from Joy Gumz (2 pages)**
- D.4.b. June 15, 2020 e-mail communication Burnt Cedar Water Disinfection Plant – another budgeting and reporting fiasco from Clifford F. Dobler (2 pages)**
- D.5. Review and discuss implementation of Board Policy 15.1.0 (Audit Committee) as amended by Board action at the meeting of May 6, 2020. *(moved to General Business Item D.0.)***



- D.6. Set the date/time for the next Audit Committee Meeting (Requesting Trustee: Audit Committee Chairman Matthew Dent) *(due to time restraints, this item was not discussed)***

**E. APPROVAL OF MEETING MINUTES (for possible action)**

**E.1. Audit Committee Meeting Minutes of May 27, 2020**

District Clerk Susan Herron said that Trustee Schmitz had requested one change and that change has been made. Audit Committee Chairman Dent asked for any further changes, none were received, so the minutes were approved as amended.

**F. PUBLIC COMMENTS\* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration.**

Linda Newman said Mr. Navazio stated that there is nothing remotely improper or illegal with the District's accounting but failed to provide any documentation to support his assertion. She would like to draw your attention to the District's accounting and reporting of the Community Services and the Beaches as governmental funds although they are required to be reported as Enterprise Funds under GASB 34. When you violate a GASB statement, you are not complying with Generally Accepted Accounting Principles. Nevada law requires compliance with Generally Accepted Accounting Principles. Failure to prepare financial statements in accordance with Generally Accepted Accounting Principles is unlawful. It is a violation of Nevada law. Mr. Navazio also referred to the District's accounting and reporting of punch card utilization as not remotely improper or illegal. Is he stating that no unlawful transfers from the Community Services to the Beaches have occurred? And, that not disclosing such transfers is lawful? Among many, these are two key issues that she would like Mr. Navazio to state in writing with supporting documentation to back up his statement that the District's accounting is not remotely improper or illegal.

Margaret Martini passed on her opportunity to speak at this time.

Frank Wright said he is a candidate for the Board and that he has a lot of problems with Staff's assertion about powers because it has been given to the powers to the GID. If it has to do with philanthropy, because it is tied to recreation, how much can they do? Have, in the past, certain agencies and entities get a lot of our amenities donated? That is improper. IVGID provides recreation, water and sewer, and is not in the business to fund outside entities and tying to some recreation facility - he thinks it is wrong. The money we give to our Rec Fee should be for the parcel owner and those who recreate here. It is not right and he had problems with Parasol and their one dollar per year give away. This is recreation money. He doesn't think that was intended to buy land. He hopes that legal will weigh in and while he doesn't think that Staff's statements were out of line, button down

and get legal advice from a competent attorney and find laws as backups on how we are spending our money.

Cliff Dobler said he listened to the presentation given by Staff and that they are reconciling one budget to the State budget yet Staff said that the tentative budget was IVGID's budget and that was what was on the State forms. He taught his kids about having a savings account and it is a fund. Every entity does a 4404 form that starts up with money, add money and end up with money. Avoiding the fund balance is an escape such that you don't know if you are dipping into that. Ridiculous on using fund balance. Stop this nonsense on two separate reports – it is unnecessary. You need to get Staff talking about their ideas – restate something, incorporate something on prior period adjustments, restate the CAFR - prior period adjustments don't tell you anything as it shows what happened in the particular year not in the following year. Thresholds – what are they? Has he developed his own thresholds? In all of his readings, the statements have to be restated, when it gets reformed, he will discuss it all and that there are rules and not the Staff rules.

Judith Miller said she listened to Mr. Nelson's explanation on how the District can give away to non-profits and her experience, with Washoe County, is that the gift of donation is usually tied to a service. DPSEF comes to mind and they organize a ski team. Some of these organizations have nothing to do with recreation however maybe the event does. The service they provide is something that IVGID should be required to do as that is the conclusion that she has come to in looking at many of the Washoe County donations.

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

The meeting was adjourned at 5:27 p.m.

Respectfully submitted,

Susan A. Herron  
District Clerk

**Attachments\*:**

\*In accordance with NRS 241.035.1(d), the following attachments are included but have neither been fact checked or verified by the District and are solely the thoughts, opinions, statements, etc. of the author as identified below.