

MEMORANDUM

TO: Audit Committee

THROUGH: Audit Committee Chairman Ray Tulloch

FROM: Audit Committee At-Large Member Clifford F. Dobler

SUBJECT: Assessment of performance of Eide Bailly, independent Auditors, for the fiscal year ending June 30, 2020

DATE: July 13, 2021

I. RECOMMENDATION

That the Audit Committee review and discuss the performance of the independent auditors as required by Board Policy 15.1.0, Section 2.4.7.

II. BACKGROUND

This Policy requirement was part of agenda item D.1 on March 11, 2021 as one of five items to be reviewed and discussed. A review of the minutes of the March 11, 2021 indicates that the independent auditors' performance was not discussed.

III. COMMENTS

No report is required under the Policy section.

**Memorandum and
excerpt of Meeting
Minutes from Audit
Committee Meeting
of March 11, 2021**

NOTICE OF MEETING

The Audit Committee Meeting of the Incline Village General Improvement District will be held starting at **6 p.m.** on **March 11, 2021** at the Boardroom, 893 Southwood Boulevard, Incline Village, Nevada.

In compliance with State of Nevada Executive Department, Declaration of Emergency Directives 006, 016, 018, 021, 026, and 029, this meeting is closed to the public and attendance is limited to members of the Board of Trustees and essential staff. Public comment is allowed and the public is welcome to make their public comment either via e-mail (please send your comments to info@ivgid.org by 4:00 p.m. on March 11, 2021 or via telephone (the telephone number will be posted to our website on the day of the meeting).

- A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*
Derrek Aaron (At-Large Member), Matthew Dent (Trustee, Chair), Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), and Raymond Tulloch (At-Large Member)
- B. PUBLIC COMMENTS* - Conducted in accordance with Nevada Revised Statutes Chapter 241.020 and limited to a maximum of three (3) minutes in duration.
- C. APPROVAL OF AGENDA (*for possible action*)

The Audit Committee may make a motion for a flexible agenda which is defined as taking items on the agenda out of order; combining agenda items with other agenda items; removing items from the agenda; moving agenda items to an agenda of another meeting, or voting on items in a block.

-OR-

The Audit Committee may make a motion to accept and follow the agenda as submitted/posted.

- D. GENERAL BUSINESS ITEMS (*for possible action*)
 - 1. Review, discuss, and possibly approve Whistleblower Procedure for Financial Matters (Requesting Audit Committee Member: Sara Schmitz; Requesting Staff Member: District General Counsel Josh Nelson)
 - 2. Staff update on Internal Controls (Requesting Staff Member: Director of Finance Paul Navazio)
 - 3. Staff update on Chart of Accounts (Requesting Staff Member: Director of Finance Paul Navazio)
 - 4. Review, discuss, and assess prior years' auditors, items for correction, deliverables, timeline for this year's audit, and Policy 15.1.0 (Requesting Audit Committee Member: Audit Committee Chairman Matthew Dent)
 - 5. Review, discuss, and possibly take action regarding the memorandum from Clifford F. Dobler to Audit Committee dated November 30, 2020 – Subject: External review on the effect of complying with Dillon's Rule relating to employee benefits (Requesting Audit Committee Member: Audit Committee Chairman Matthew Dent)

Incline Village General Improvement District

Incline Village General Improvement District is a fiscally responsible community partner which provides superior utility services and community oriented recreation programs and facilities with passion for the quality of life and our environment while investing in the Tahoe basin.

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MEMORANDUM

TO: Audit Committee

FROM: Matthew Dent
Audit Committee Chairman

SUBJECT: Review, discuss, and assess prior years auditors, items for correction, deliverables, timeline for this year's audit, and Policy 15.1.0

DATE: March 4, 2021

I. RECOMMENDATION

The Audit Committee make a recommendation for future agenda items.

II. BACKGROUND

This was a much more active Audit Committee than years past which expanded upon the typical work load and we held 13 meetings. In May 2020, the Board of Trustees updated Policy 15.1.0 paving the way for the appointment of three At-Large Members to be seated on the Audit Committee. The new members were seated in July 2020 and as we conclude our first year since the reorganization, we want to access the prior year auditors, the overall process, items for correction, deliverables, timeline for this year's audit, the engagement letter, and any suggested changes to Policy 15.1.0.

D.4. Review, discuss, and assess prior years' auditors, items for correction, deliverables, timeline for this year's audit, and Policy 15.1.0 (Requesting Audit Committee Member: Audit Committee Chairman Matthew Dent)

Audit Committee Chairman Dent gave an overview of the submitted materials. Audit Committee At-Large Member Dobler said to begin with he has stocks with several corporations and major corporations can get out their 10k within 45 to 60 days; we started this in May and we didn't get done until January. This is a podunk operation and it's not much at all. As he said in the first meeting we had in July, you are supposed to submit a financial statement to the auditors, and they are supposed to audit it. We didn't get that statement to them until sometime in October. We had an update in July and then a draft Comprehensive Annual Financial Report (CAFR) came out in October and we had to request that and that draft came to us outside the meeting. He immediately looked at the draft CAFR and it wasn't everything, he turned around and immediately did a memorandum to the Audit Committee of the misstatements on October 19, which was addressed to the Audit Committee, and it never got to the Audit Committee agenda and we have had several meetings since that time. In October, as an excuse, we were presented with the 2019 MD&A, transmittal letter and welcome letter and that was on October 27. Then we finally got a draft of the basic financial statements and supplemental schedules on November 19. So, the point of the matter is why are we having such difficulty in getting a financial statement? The other thing is that Moss Adams was engaged to do 4 of the 14 points that he suggested, then it was expanded to 27, Audit Committee Chairman Dent set up a meeting, which under our policy we were supposed to have executive meetings with the auditor, that meeting was cancelled, and the Audit Committee Chairman verbally went over 23 points. Then it came back to him verbally that the statements were going to restated and he thinks that was in three occurrences. He asked the Audit Committee Chairman to have the auditors put that in writing of what they observed and that was never done. We were working on that in October and nothing came out of the auditor until January. If we have a policy that says that the independent auditor reports directly to the Audit Committee and we are supposed to have free and open communication and periodic executive sessions - why didn't we have that? He is making the observation that we had a policy that was adopted in April that wasn't followed at all. Audit Committee Chairman Dent said so your suggestion is that we need to revisit Policy 15.1.0 and we will put that on a future agenda. Audit Committee At-Large Member Dobler rebutted that we need to revisit the management.

Why does it even happen and why does it take this organization 7 months to put out a CAFR? Audit Committee Chairman Dent said he doesn't know but the point of this is to create future agenda items and that Policy 15.1.0 should be an agenda item so we can dive into the aspects of it and make sure we understand clearly what we are expecting from management and make sure that the policy is written in a way that management understands what we are expecting and the Audit Committee understands what we are expecting so he does have Policy 15.1.0 on his list as a future agenda item. Trustee Schmitz said if she is understanding this agenda item, it says items for correction so she is interpreting this that we can put forward, as part of this discussion, suggestions for modifications to Policy 15.1.0 and that it is her understanding of this agenda item and if that is the case we can actually make the necessary change to the language that we were discussing in the whistleblower conversation to this policy and she would like to point out that in this policy, under 1.0, it clearly identifies that the independent auditor reports directly to the Audit Committee and in the scope of work, that was removed from the Board of Trustees agenda last night, it did not reflect this so we need to make sure that we are all on the same page and scopes of work with the external auditor don't send a conflicting message to the external auditor as we need to start from day one with an expectation that the independent auditor reports directly to the Audit Committee and therefore the Audit Committee can assure that they are going to be getting the communication and be getting the information and not be receiving a CAFR for the first time. Audit Committee At-Large Member Aaron said that the way he sees this agenda item is that it is an opportunity to go back and address Trustee Schmitz' and Audit Committee At-Large Member Dobler and how do we hit our milestones, etc. A project plan is our best friend. His proposal is that we dig a lot deeper with a well-defined plan with clear milestones and deliverables with the new auditor as we need something like this to march to for the audit this year. Trustee Schmitz said, on agenda packet page 404, it clearly says approve the scope of work and audit plan by June of each year and that is in there as a responsibility for the Audit Committee, don't recall what happened last year. Audit Committee At-Large Member Aaron said so in addition to that he went through the entire policy and he pulled the items that should be included which he then went over verbally. Once we nail all of this down on paper, it will be easier for us to manage what we are supposed to be managing as an Audit Committee. Audit Committee At-Large Member Dobler said where we need to begin is after the Board selects the auditor and then comes the engagement letter. In the engagement letter it assigns the responsibilities. Everybody was told it was boilerplate and it should be designed for what we need and that is

where we need to start. We need to engage them and understand what we are engaging them for. What has happened in the last four years, is the responsibility for preparing financial statements, in accordance with GAAP and GASB, is management's responsibility. You have a lifeguard and someone who doesn't have a CPA and they make a representation that it is GAAP. The auditor said I got a representation from management, so I am off the hook and that is why they aren't clear. They relied on management that said something that wasn't true; we need to concentrate on the letter. Audit Committee Chairman Dent said we have the engagement letter but we haven't seen it. Trustee Schmitz asked if we able to make changes to this policy? District General Counsel Nelson said we can identify the areas we want to modify, can propose a recommendation to the Board for amendments, and that can be done tonight or at a future meeting. Trustee Schmitz said this is our opportunity and that her suggestion is that we have the language be consistent with the whistleblower policy and bring those back. The other change is the date for the transition of the Audit Committee members as we didn't clarify that it is the fiscal year and that should be a clarification as it relates to the organization of the Audit Committee. We need to abide by this as we didn't do as well as we could have last year and that begins with the contract and the scope of work. Audit Committee Chairman Dent said we could do a deep dive into Policy 15.1.0, especially on 2.4 and 2.6, so that Staff knows what is expected. One could read into this that the Audit Committee would be meeting weekly so now we need to fine tune it. Audit Committee At-Large Member Dobler said his opinion is apparent, he voted no on it. We had a lot of non-compliance and we said we are going to fix it next year, a couple of them are substantial, and that may require restatement of the financials from last year. We need to get that clarification right off the bat as he is especially concerned with the capitalization on the pipeline. It would seem to him that we should talk to them first and how they would proceed so we can inform an engagement letter. Audit Committee Chairman Dent said that is a good idea especially when we develop the plan and bring them in to clarify the plan. Audit Committee At-Large Member Tulloch asked if we have provided the new auditors with copies of all the Moss Adams reports and Audit Committee meeting minutes? Director of Finance Navazio said they have the Moss Adams reports and Audit Committee Report; however, he didn't give them meeting minutes. We also shared with them some of the earlier correspondence regarding the various points. We will need to talk to District General Counsel and others as we need to get them under contract, which was the intent, and then have an in depth discussion. Staff will circle back and bring it back to the applicable group once they are under contract. Audit Committee At-Large Member

Tulloch said agrees we need to get them under contract and then have a workshop to make sure we are all on the same page. Audit Committee At-Large Member Dobler said he didn't listen to the Board meeting last night, can you tell him why the item was pulled? Audit Committee Chairman Dent said it was pulled from the agenda because the scope of work didn't come before the Audit Committee. There were a couple of members that had seen it and Staff who had seen it just from the selection process but it didn't come formally before the Audit Committee which is procedural. Audit Committee At-Large Member Dobler said you didn't abide by the policy and decided to bypass the Audit Committee? Director of Finance Navazio said that the scope of work was consistent with the Committee approved Request for Proposal and we were doing a generic master agreement and then issuing annual task orders for each individual audit. It was intended to be a master agreement and not have the scope, etc. for this audit as that is in the purview of this committee; we have to circle back to get it moving.

D.5. Review, discuss, and possibly take action regarding the memorandum from Clifford F. Dobler to Audit Committee dated November 30, 2020 – Subject: External review on the effect of complying with Dillon's Rule relating to employee benefits (Requesting Audit Committee Member: Audit Committee Chairman Matthew Dent)

Audit Committee At-Large Member Dobler gave an overview of the submitted materials for items D.5., D.6. and D.7 and stated that they all have to do with a two citizens' ideas (8 items) that maybe we were violating NRS/IRS. Audit Committee At-Large Member Tulloch asked what have we have concluded from that overview? Audit Committee At-Large Member Dobler went over his recommendation on agenda packet page 431, item 1. Audit Committee At-Large Member Tulloch said he is in agreement with that recommendation. District General Counsel Nelson said it was his recommendation to modify those policies and procedures. Audit Committee At-Large Member Aaron said yes, if that is your recommendation, and stated that he thought a motion was required. District General Counsel Nelson said one of the things that would helpful for Staff is to state whether you want outside legal or BBK to work on it. Trustee Schmitz said, for clarification, that you made quite a few recommendations about creating policies and we have so we have to move this forward with your recommendation. District General Counsel Nelson said yes, he supports the recommendation however the question that is still outstanding is who will be assisting with those policies because the request was for outside legal. Audit Committee At-Large