

MINUTES

AUDIT COMMITTEE MEETING OF DECEMBER 16, 2021 Incline Village General Improvement District

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Ray Tulloch on Wednesday, December 16, 2021 at 3:00 p.m. via Zoom.

A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*

Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), Matthew Dent (Trustee) and Raymond Tulloch (At-Large Member) (Chair)

On roll call, present were Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), Raymond Tulloch (At-Large Member, Chairman) and Matthew Dent (Trustee).

Audit Committee Tulloch offered his apologies for his late publication of the meeting materials and that it was not down to Staff rather it was entirely down to him.

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

Dick Warren said I can't say this any better, so I am quoting Chris Nolet on the particular "**INTENTIONAL ERROR**" in the current CAFR:

"Dear Board of Trustees, District GM and Jennifer Farr - please find attached my email to the Audit Committee yesterday based upon the discussion during the December 8, 2021 Audit Committee meeting. My advice to the Audit Committee in my email is self-explanatory. I would also note the following:

Davis Farr is engaged by, and works for, the Audit Committee (not District management).

All four members of the Audit Committee were clear in their communication on December 8 that Board Policy 9.1 3.0 and Board Practice 2.9 1.2.5 do not allow for "interpretation or judgment" to support capitalization of individual asset additions of less than \$5,000. I have carefully studied both these references and see **NO** latitude therein for the application of judgment or interpretation.

This *very late adjustment* proposed by District management is based upon a completely unsupported assertion made by District management that the relevant guidance does allow for judgment to be made in its application.

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As the Audit Committee *unanimously disagreed* with that management assertion, and as Davis Farr works for the Audit Committee, it is reasonable to consider this late adjustment to represent a known, **intentional error** under ASC 250 and related SEC guidance (in the absence of any specific GASB guidance concerning error corrections).

Known, intentional errors recorded by management are generally **NOT** evaluated based on **quantitative** materiality. They are generally evaluated through the lens of **qualitative materiality, with a primary focus on management integrity**. Davis Farr surely understands this circumstance. Hence, I fail to see how the Fiscal 2021 ACFR can be approved by the Audit Committee or Board in its current form when it appears to contain 1) this intentional error, and 2) inconsistent application of the Policy and Practice noted above, particularly when compared to the Fiscal 2020 CAFR.”

So give this some thought, the Board approved a CAFR that contained an intentional error, and this CAFR was blessed by Davis Farr, the auditing Firm. What kind of a Board blesses a CAFR with an intentional error? Not a very smart one. Thank you.

Mike Abel said he would first like this opportunity to applaud Trustees Dent and Schmitz for their vote on the ACFR earlier this week. With the Board majority willing to put up with the continual violations of Board policies one must ask themselves, “why even bother to have board policies”. If non-CPA Navazio, who lacks the specified qualifications to be IVGID Director of Finance, cannot follow the GAAP and board policies, why don’t the Trustees look for another DoF. Why, because they are lazy and ignorant of what it takes to hire qualified personnel. It is easier for the board majority to look the other way and “move forward.” Speaking of “moving forward”. As anyone who listens to these meeting learns. The words “moving forward” and “moving on” are nothing more than euphemisms for, “Well we screwed it up this time, but since we do not care about the taxpayer’s money or the integrity of IVGID management, and since we will never put the hammer down on staff to do a better job – let’s just forget this screw up and even probably ignore it next time.” I suggest that when live meetings are resumed that we have like a “swear jar” on the podium, like when kids swear at home or in school. Then every time a Trustee says, the we have to “move forward” or “move on”, they would have to deposit \$5 in the “swear” jar. The money then collected would be donated to a local charity. I bet that it would be over \$1000/year. I would also like to applaud the Farr report on IVGIDs equivocal and virtually non-existent purchasing policies. It is time that the Audit Committee address this shortfall as well as the abuse of credit cards issued by IVGID management. Finally, I would like to address Mr.

Callicrate's stupid, inaccurate and venomous comments targeted at Audit Committee members Cliff Dobler and Ray Tulloch. (Tuesday BoT meeting) The fact that Wong and Tonking voted to give Mr. Tim "kumbaya" Callicrate another year running the zoo demonstrates their lack of consideration for the tax and ratepayers. The same Callicrate that wants to spend district money on a psychologist to promote his goofy "kumbaya" ideas for the Trustees, then does exactly what he opposes. Callicrate has been a disaster for the last year and is certain to be a disaster for 2022. Tuesday was a true Forest Gump moment for Callicrate. *These comments to be included in the permanent record of the meeting*

Diane Becker said she generally listens to the Audit Committee and Board of Trustees meetings and rarely calls in but she feels that the rules and regulations are being lost and compliance is critical for a healthy organization and it has to stop at the top. (Listen to the tape). Very concerned about the ultimate impact ... Compliance is dotting I's and crossing T's, it's an ethical issue. Difficult to define compliance and when we look for ways to game the system we have to follow it to the letter. The reason to do this and who do pay dues, we know what our true financial situation is. Concerned when she reads ...that is not what we need as an entity. Really like and care for IVGID. If we, as management, don't tell ...horrible precedent.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Tulloch asked for any changes; none were made. The agenda was approved as submitted. District Clerk Herron asked for removal for the meeting minutes of November 17, 2021. The agenda is approved as revised.

D. GENERAL BUSINESS ITEMS (for possible action)

D.1. Review, discuss and possibly approve the Audit Committee Report, as required by Policy 15.1.0, on the District's Annual Comprehensive Financial Report, Fiscal Year Ended June 30, 2021 (Requested by Audit Committee Chairman Raymond Tulloch)

Audit Chairman Raymond Tulloch said he has prepared a draft report based on comments at the last Audit Committee meeting; he doesn't claim it is perfect but gives the committee something to work with. Go through the document and see if we agree on what has been prepared and/or make corrections/changes. Audit Committee Chairman Tulloch then went through the document.

Following were questions and answers:

Exhibit 1

Trustee Schmitz: Exhibit 1, Background, go down 4 paragraphs - in light of the Audit Committee receiving the report on the 8th - she thinks on the 8th is when we saw it for the second time and when the capitalization items were brought forward.

Audit Committee Chairman Tulloch: On November 17, the Audit Committee received the draft.

Trustee Schmitz: So we saw the final on December 8.

Audit Committee At-Large Member Dobler: We had two early on so there was actually three of them.

Audit Committee Chairman Tulloch: Will add the clarification on that.

Section 2, 2.1

Director of Finance Navazio: We did sign it between November and December so we will need to figure out how to schedule meetings around that going forward.

Section 2, 2.2

Audit Committee At-Large Member Dobler: It goes beyond repairs, most of the \$3.179 million was a list of things given in the Moss Adams report – feasibility, assessment, engineering, seeking out financing, etc. and this is more of the feasibility studies, master plans, searching for financing, etc. so it needs to be expanded.

Trustee Schmitz: She sees where it talks about different concepts of the project, look at the first paragraph, in 3.1, is that a more accurate description? Page 4

Audit Committee At-Large Member Dobler: Just not repairs so it needs to be changed. We based it on our analysis on June 30, 2019 and have the same activities going on in 2020 and 2021, \$170,000 more, which is nothing more than Staff time and Granite reassessing and figuring out what they were going to be doing.

Audit Committee Chairman Tulloch: Classified it as repairs, treated the \$3.179 million as the work done through June 30, 2019.

Audit Committee At-Large Member Dobler: Still continue to capitalize those charges in 2020 and 2021.

Audit Committee Chairman Tulloch: Covered more generally in the follow on points. And express his thanks to Audit Committee At-Large Member Dobler for his review in all of these. Expressed his thanks to District General

Manager Winqest and Director of Finance Navazio for their reviews and making those changes.

Trustee Schmitz: Did we capitalize efforts for 2020 and 2021? What is the status of that?

Audit Committee At-Large Member Dobler: In the asset construction category.

Trustee Schmitz: She thought one of the findings is that we shouldn't be putting this into construction in progress?

Director of Finance Navazio: Any costs incurred in 2021 would be in construction in progress. The reason why it is currently there is because the main reason for writing off the \$3.179 million is the type of work and work that was done. Costs identified and being done are appropriate to capitalize. More of a timing issue of when the costs were incurred more so than the type of costs as engineering costs are appropriate to be capitalized.

Audit Committee Chairman Tulloch: Covered under Point 9 and will make the change to 2.2.

Section 2, 2.3

Audit Committee Chairman Tulloch: Thanks to Staff for referencing the previous deficiencies and providing an accurate picture for anyone reading it.

Trustee Schmitz: Unless the transmittal letter was changed, it doesn't use the plural for weakness in the letter and doesn't know if Staff used the plural.

Director of Finance Navazio: Staff didn't make that change, we know that there were two weaknesses. Finalized as presented.

Audit Committee Chairman Tulloch: He is ok with the way it was written.

Trustee Schmitz: She doesn't believe it can be changed.

Audit Committee At-Large Member Dobler: Pretty big error, second page of the letter, obligations for the tax refund was completed, hasn't been started, booked as a liability, inferring as being paid, numerous errors and we will never get done.

Audit Committee Chairman Tulloch: What he has tried to capture is the primary points and has written this in a more user friendly and simple form. Hopefully, the committee approves that approach. If not, there is a lot of rewriting to do; he will take the silence as acceptance.

Audit Committee At-Large Member Dobler: The Board has already approved the package in a 3 to 2 vote and we are just telling them about it.

Item 4

Audit Committee Chairman Tulloch: Confirming the clarification and scope of work by Davis Farr as he received several inquiries from the community

about why not digging further and it was looking at the numbers and reviewing the reports. When we go to recommendations, we have made some comments for consideration by the Board.

Item 5

Audit Committee Chairman Tulloch: Just clarification and noting the second year of material weakness.

Trustee Schmitz: Does Management agree this is a correct representation?

Audit Committee At-Large Member Dobler: Why are you asking for agreement from Management?

Trustee Schmitz: Does this accurately reflect what happened as she wants to make sure we are all on the same page.

District General Manager Winquest: No issues.

Audit Committee Chairman Tulloch: He agrees and what we are trying to do is make sure we are working from the same play book here.

Item 2.6.

Audit Committee Chairman Tulloch: Discussed it at previous Audit Committee meetings, discussed with the District General Manager, both in agreement we need to prioritize internal controls and some are relatively straight forward controls.

Audit Committee At-Large Member Dobler: He went through the Audit Committee meeting minutes and internal controls have been brought up 4 or 5 times, there has been no movement, he knows how to get things done and that is setting a deadline as we hired a consultant in March, without deadlines, therefore it is meaningless.

Audit Committee Chairman Tulloch: Asked Staff about adding additional resources.

District General Manager Winquest: He and the Director of Finance have discussed this we will be coming before the Board to hire someone. Do not agree with Item 6. and he would like to have those conversations offline.

Audit Committee Chairman Tulloch: Unanimous view of the Audit Committee that this must become an urgent effort.

Director of Finance Navazio: Staff is committed to bringing it back in January and have committed to tightening up internal controls, regarding signature cards, issue that we brought up to them and that we have accomplished, we are attempting to prioritize, are making progress, and it is incorrect to say that we are not making progress.

Trustee Schmitz: It just says that several concerns and deficiencies were related to internal controls.

Audit Committee Chairman Tulloch: He is just trying to highlighting the key items and tried to keep it brief. Internal controls are going to be a key focus of the committee.

Item 7

Audit Committee Chairman Tulloch: Concern of the committee and the wider community, given so many prior period adjustments, and these prior period adjustments pre-dated the District General Manager and the Director of Finance and they are doing cleanup work. Without accurate information, it is hard for a manager to see how business is operating. Making progress on the cleanup which will help. If that means discussing capitalization more frequently, to get it done before the year end, he thinks it would be helpful.

Capitalization

Audit Committee Chairman Tulloch: Read the capitalization criteria – park this one.

Audit Committee At-Large Member Dobler: The reversal was \$667,000, we are referring to two policies that are threshold policies, most of the reversals had to do with paving and repair, and they don't fall into the policy, Moss Adams said expensed, most of the reversals that IVGID made fall outside this threshold level. It is \$667,000 of the \$866,000, almost \$400,000 was paving and parking lots. It is the big item that is important and that's not covered by policy.

Item 9

Audit Committee Chairman Tulloch: Addresses concerns by Trustee Schmitz and Audit Committee At-Large Member Dobler – capital in progress account.

Audit Committee At-Large Member Dobler: Talking about financial statements?

Audit Committee Chairman Tulloch: Both.

Director of Finance Navazio: Two concepts there – one of them had to do with recording expenses on construction in progress and their comment was accumulating all year and went through it to see what needed to be expensed and their comment was not to what until year end.

Audit Committee Chairman Tulloch: Absolutely.

Director of Finance Navazio: Agree with comment but not construction in progress.

Audit Committee At-Large Member Dobler: Conflating two different issues, had expenses and knew it and never recorded in the capital in progress fund, and it has nothing to do with a project. Reversing it out is a different

item. Direct violation of GASB and NRS – can't agree with it as it says what it says.

Trustee Schmitz: Agree with the comment that it includes two different issues and they should be separated. As it relates to the project fund containing expenses, that aren't going to be capitalized. She had a conversation with the Director of Finance and contacted Ms. Langley at the State and all capital projects need to be run through the project fund. If there are expenses that are being used for capital maintenance, she wouldn't weigh in, but rather she said take the word of the auditor because if they were all right with that, they weren't going to argue.

Audit Committee At-Large Member Dobler: So she told you that that they just accept information?

Trustee Schmitz: Ms. Langley found it unusual we would do it that way, most wouldn't put in maintenance and that most include that in the operational budget. While it seemed odd, she is just going to defer to the ruling of auditor.

Audit Committee At-Large Member Dobler: He does not agree with this.

Trustee Schmitz: Ms. Langley would recommend that we stop doing it that way and put expenses over in the operating budget.

Audit Committee Chairman Tulloch: Probably conflated two issues, from his reading of the audit report, the only issue was the timing, as he does not recall any comments about inclusion, is that correct?

Director of Finance Navazio: Agree with two issues and the auditors talked about timing. Audit Committee At-Large Member Dobler put forth another issue that the auditors didn't comment on.

Trustee Schmitz: Do we need to ask for the auditors' thoughts on it?

Director of Finance Navazio: He is not going to speak for Ms. Farr however there was a conversation with her. If the Audit Committee Chairman is asking if the auditors raised this as an issue, no. If the committee has an issue with this, that is your prerogative.

Audit Committee Chairman Tulloch: Agree that it is important issue that seems to have a much stronger root cause and that is capital projects going before a full assessment has been done. Assessments and expenses are incurred, done and prior to being passed for approval. Maybe he is missing something but that is what he has observed here. Clean up is changing the process for bringing things up for approval.

Audit Committee At-Large Member Dobler: He has brought this up several times before, they agreed with Moss Adams for over 5 years and it just hasn't been done; he believes Trustee Wong suggested it.

Audit Committee Chairman Tulloch: Violent agreement here.

District General Manager Winquest: This has been a topic of discussion for several years, there are several ways of doing it, so let's all come to an agreement and stick with that. These policies, related to capitalization, are approved by Boards and auditors. He appreciates bringing up the cleanup, think it was how it was done, so let's come to an agreement and move forward.

Audit Committee Chairman Tulloch: Almost external to the capitalization policy and more fundamental review of how we, as a District, are authorizing capital projects. When the project comes forward for capital, all the prior assessment has been done.

Audit Committee At-Large Member Dobler: Look at Policy 13.1, just look at the policy.

Trustee Schmitz: Ask the committee, where you have the recommendations, we should add two recommendations – review the procedure to ensure that the expenses are being removed from construction in progress in a timely fashion and the second recommendation is to place the budget for capital maintenance in operating.

Audit Committee At-Large Member Dobler: Won't have a project fund next year.

Trustee Schmitz: You are correct.

Audit Committee At-Large Member Dobler: It has to be an expense, period.

Trustee Schmitz: Do you want to have it on your list, follow up on it, and track it?

Audit Committee Chairman Tulloch: Does the issue, as identified, disappear when we move to Enterprise Fund accounting?

Audit Committee At-Large Member Dobler: Not necessarily, take a look at your policy, it is pretty simple, and it is an expense – this is complicating something that doesn't need to be complicated.

Director of Finance Navazio: Proposed/updated capitalization would have us set up the phases so we would be tracking costs by phases and then capitalizing the costs in the construction phase. It is an area that we agree needs to be improved upon.

Audit Committee At-Large Member Dobler: Financial statements are just not accurately stated and we can't fight her opinion however, it is not proper to put \$1 million in assets and that is his opinion.

Audit Committee Chairman Tulloch: The fund is just gathering it and we need to make sure the process and practices are accurately reflecting it.

Audit Committee At-Large Member Dobler: It matters how it is reported, it has been reported incorrectly. Do whatever you want, he knows he is correct.

Audit Committee Chairman Tulloch: Put it on a future Audit Committee agenda for further discussion.

Director of Finance Navazio: Perhaps to address Audit Committee At-Large Member Dobler's concern, the last sentence could be a separate item, it then captures Audit Committee At-Large Member Dobler's concern as a standalone item.

Item 10

Audit Committee Chairman Tulloch: Know we have had quite a bit of debate, knows that Audit Committee At-Large Member Dobler and Director of Finance Navazio met to discuss this. Have we reached a resolution?

Director of Finance Navazio: No qualms about how you characterized it in your report, knows that there is still some concern is on this, and in prior statements, don't have any concerns with how you have it characterized.

Trustee Schmitz: Add this to the recommendations list, believes that Director of Finance Navazio, District General Manager Winquest and she were discussing, the General Fund has considerably more investment than the Community Services Fund, and that, perhaps, we could revise our budget to be a more accurate representation. At our last meeting, she thinks that Staff said it was going to be re-adjusted.

Director of Finance Navazio: That is correct and that Staff wants to look at it and bring forward any adjustments.

Trustee Schmitz: Capture as a going forward recommendation?

Audit Committee Chairman Tulloch: Will interest income be allocated based on the daily average basis?

Audit Committee At-Large Member Dobler: We can have separate fund or have to allocate it if it is combined - can do it either way – three funds or it is one fund.

Item 11

Audit Committee Chairman Tulloch: Continue to capitalize design studies and assessments, last year we moved it back to the expenses, is the issue for last year timing? Or is it a case that we failed to be consistent with last year?

Audit Committee At-Large Member Dobler: In 2019, he brought all of this up in January or February, in 2020, decided to start expensing.

Audit Committee Chairman Tulloch: Does Staff agree it is about timing and not being consistent?

Director of Finance Navazio: Staff hasn't had the time to study it therefore his comment on this is that Staff needs to look at it more closely.

E. **MEETING MINUTES** (for possible action) – ***This item was removed from the agenda in its entirety.***

1. Meeting Minutes of November 17, 2021

F. **PUBLIC COMMENTS***

There were no public comments made at this time.

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

The meeting was adjourned at 5:37 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.