

MINUTES

AUDIT COMMITTEE MEETING OF DECEMBER 5, 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 Michaela Tonking on Wednesday, December 5, 2022 at 4:00 p.m. via Zoom.

A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*

On roll call, present were Raymond Tulloch (Member-At-Large), Mick Homan (Member-At-Large), Kendra Wong (Trustee), and Michaela Tonking (Committee Chair). Vito Brandle (Member-At-Large) joined the meeting at 4:13 p.m.

B. PUBLIC COMMENTS

Cliff Dobler read from a prepared written statement which is attached hereto.

Aaron Katz stated he has a written statement to be attached to the minutes. He commented that he emailed the Audit Committee Members on December 4, 2022 about objections he had with the proposed audit. He stated that the audit needs to be changed and it is a waste of time. He continued that it might be appropriate when reporting on governmental affairs but the District is in the commercial recreation business and when it comes to that kind of reporting, it is different. He stated what was completed is wrong; there are 8 types of audits so pick the right one, or don't pick any of them. He continued that an engagement letter cannot be signed with an auditor, which takes them off the hook from ferreting out any fraud, waste, violations of law and misrepresentations. He stated that is what the auditor is requiring and blindly this is done year after year; he stated stop and do no more in the future, and if the auditor does not like it, go work for NLTPUD. He stated there are plenty of untruths in the proposed audit and stated not to let the auditor get away with them. He provided examples such as properly assigning expenses; he stated he emailed the Audit Committee Members earlier in the day to show another misdirection of assignment of funds. He suggested getting rid of the GFOA [Government Finance Officers Association] certification of excellence and stated it is propaganda, which costs tens and thousands of dollars of unnecessary fees and accomplishes nothing. He stated he had a question about the \$8,000 of overspending in the General Fund because of receivables; he asked for clarification on this and mentioned it makes no sense.

C. APPROVAL OF AGENDA (for possible action)

Chair Tonking asked for changes to the agenda, none were made so the agenda was approved as submitted.

D. GENERAL BUSINESS ITEMS (for possible action)

D.1. Receive and discuss draft Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022, to include Auditor's Report(s) prepared by Davis Farr, LLP (Requesting Staff Member: Director of Finance Navazio; presenting with Jennifer Farr, Partner, Davis Farr, LLP)

Director of Finance Navazio provided a brief overview of the materials included in the packet. Ms. Farr then took over the discussion and presented the materials included in the packet. Member-at-Large Homan referenced the summary of past adjustments; he stated that there was a bullet point but no quantitative information provided and asked if it was trivial in nature or if he was missing a place where the amounts were provided? Ms. Farr responded that they are not required to include specific amounts in the letter and essentially, they calculate materiality as 1% of the higher of total assets or revenues within a certain opinion unit. She continued that they consider 5% of that 1% to be a trivial amount; anything that is in between that range of 1% of total revenues and 5% of the 1% that is an error or potential error that they did not record, is communicated in this manner. Member-at-Large Homan stated that part of the reason he asked that is because the management representation letter referred to a list of uncorrected misstatements but there was no list attached. Ms. Farr stated this was likely a typo and that sentence should be removed. Director of Finance Navazio stated that the prior period adjustment related to transitioning from governmental special revenue to enterprise fund accounting triggers a prior year adjustment in excess of \$75 million as that is the entire net asset of the Community Services Fund going from one financial statement presentation to another. He continued that the only other prior period adjustment was for a portion of a July tax receipt for approximately \$90,000. Member-at-Large Homan referenced the prior letters written by the prior Audit Committee and asked if these were considered while completing the audit? Ms. Farr stated she needs more specificity. Member-at-Large Homan referenced the many unclosed items related to capitalization and noted it as one of the risk areas identified in the audit; he asked if she is happy with the way things are recorded. Ms. Farr responded that she believes they did sufficient work to ensure that there were no material misstatements in the capital asset records; they have identified that as a significant audit risk because of the questions and discussions that have come up in Audit Committee meetings in the past. She continued that they take a serious and deep look at the

capital asset transactions to ensure that there are no material misstatements. Member-at-Large Tulloch asked for confirmation that it was the 2021/2022 capital transactions that were reviewed? Ms. Farr confirmed that this is correct. Member-at-Large Tulloch stated that most of the previous Audit Committee memos were regarding prior year capital transactions; these questions remain outstanding. Ms. Farr stated that prior year capital assets were not part of the scope for this year's audit. Member-at-Large Tulloch referenced 3 significant deficiencies which appear to revolve around internal controls; he asked if these are all unique deficiencies. He stated they appear to interact with each other and asked if in the aggregate, they become much more significant. Ms. Farr stated that the 3 do not appear to have a relationship to each other. Member-at-Large Tulloch stated his concern is the 3 items appear to impact internal controls and he wonders if the 3 of them in aggregate become more serious? Ms. Farr stated that there is not a mechanism in the auditing profession to tabulate individual items and determine aggregate seriousness. Member-at-Large Tulloch stated he becomes uneasy about 3 significant deficiencies being pointed out again this year. He continued that there appears to be weaknesses in internal controls as it relates to procurement and purchasing processes; this is why his risk antenna goes up. He asked if Ms. Farr is comfortable that there is no inherent risk regarding the internal control structure? Ms. Farr stated she does not understand the question; she noted that the auditing standards require that they communicate issues a certain way which has been done. She continued that there is not some other conclusion to be reached other than one that would lead them not being able to issue a report on the financial statements and that is not the case in this situation. Member-at-Large Tulloch stated Ms. Farr does not see any risk associated with the apparent lax internal controls. Ms. Farr stated she did not say that and the issues are communicated in the manner that are set forth by the auditing standards; there is no other statement or conclusion she can make other than what is in writing. Member-at-Large Brandle stated there is a lot that needs to be explained; there are some concerned citizens that have sent in information and he has some questions as well. He asked if that should be unpacked here. Audit Committee Chair Tonking stated the items should be unpacked here so that when it goes to the Board of Trustees, the Audit Committee has unpacked some of the issues. Member-at-Large Brandle asked if the Director of Finance has answers to everything that was sent over yesterday? Director of Finance Navazio stated to the extent that he is aware of all that had been received, Staff did review the communication from Member-at-Large Tulloch and he is happy to discuss. Member-at-Large Brandle stated he understands the 3 significant deficiencies but asked to go

into a bit more detail as to why the material adjustments were made. Ms. Farr stated that materiality is based on the individual fund or opinion unit so materiality can be different for one fund from another fund; she stated that these 3 were all in the General Fund which is because the materiality threshold is much lower there. She referenced issues regarding claims payable/legal settlements and compensated absences and stated it is really an issue of putting the liability in the correct column instead of the General Fund. She continued that the numbers were not wrong, but should have been in a different column. She stated that the third issue was related to the revenue recognition and the timing cutoff of when revenues were received and recorded. She mentioned that the timing issue had almost no impact on the total equity in the fund but was more to get the balance sheet corrected; moving forward, it will be correct and it will be very obvious if it is incorrect in the future. She noted that they mentioned an immaterial entry for unbilled receivables in the Utility Fund; this fund does record unbilled receivables and this has to do with service periods crossing the fiscal year and getting the proper cut off. She noted that some of the cut off was correct but there was some line items that were not included in the calculation so they thought there needed to be some additional revenue items that needed to be split. She stated that these are unusual highly technical items and not necessarily errors as a result of a normal process; these are more of year-end closing type processes that come up once a year. Member-at-Large Brandle asked if the Utility Fund is a timing difference of 4 days next year versus 5 days, as an example. Ms. Farr confirmed. Member-at-Large Brandle asked if the first 2 deficiencies, which appear to be a classification mistake, are going to be rectified in the future based on the auditor's suggestion to the team? Director of Finance Navazio stated that Staff did make the correction based on the auditor's recommendation and Staff has no problem with continuing to record them the way that they were requested to be recorded; it was noted that there has been a process change. Director of Finance Navazio referenced the physical inventory of the golf shop and stated Staff agrees with the recommendation. He noted that Staff did annually review the inventory of the Public Works store room, fleet, fuel, food and beverage but the issue was specific to the pro golf shop inventory that did not take place on June 30 and he would not want the Audit Committee to interpret that finding and recommendation to suggest that there is a complete lack of internal control as it relates to the District physical inventory. Member-at-Large Brandle asked if Director of Finance Navazio knows what the asset value is as a percentage? Director of Finance Navazio responded that he does not know the percentage off the top of his head but can get the information to the Audit Committee. He stated that when Staff did the

inventory a year ago, they were pleasantly surprised that there was very little in terms of inventory adjustments or write-offs. He mentioned that after June 30, there was a break-in at the pro shop; there was an inventory completed after that incident as it related to the insurance claim. District Controller Martin Williams stated the inventory at the pro shop was at \$9,363.59 at the end of June. Audit Committee Chair Tonking stated she is guessing that these adjustments/liabilities have been recorded for a long time in the past financials and she is guessing that they either hit the level of materiality or it is because it was a new auditor last year and stated she is curious as to why they were flagged this year. Ms. Farr stated she is not sure if it is true that the legal settlement item has been there for a number of years. She continued that the compensated absences issue is something that was discussed last year and it was not material; it is an issue that they pushed more this year in terms of wanting it to be more consistent with financial reporting. She stated that the practice is now more in line with what other governments do; it was not necessarily that the practice was wrong last year. She stated that there is an argument for saying that all of the sick and vacation liabilities are going to be paid out within a year but in practice, most governments report it as a long-term liability. She continued that from a consistency standpoint and the fact that new accounting standards are coming out related to compensated absences, they wanted to make sure it was in the right place. Member-at-Large Tulloch referenced the golf shop inventory and the \$9,363.59 amount mentioned earlier and asked where the number came from if the inventory was not done? District Controller Martin Williams responded that Staff keeps an ongoing inventory count; a physical inventory was not completed to verify the value in the store but that is the amount that was in the general ledger as of June 30. Member-at-Large Tulloch referenced the corrected and uncorrected misstatements and asked if there was a dollar value? Ms. Farr stated the specific dollar amounts are not handy but she can look this up and get back to the Audit Committee. Member-at-Large Homan suggested a schedule that shows numerically the amount of the items, which may be helpful moving forward. Member-at-Large Tulloch mentioned that some of his comments are typographical; and then he went over the PDF document that he sent in. Staff and/or Ms. Farr replied to each of the questions.

Trustee Wong left the meeting at 4:53 p.m. and rejoined at 4:59 p.m.

Member-at-Large Homan pointed out the auditors report and stated that he thinks Note 4 should be Note 5. He stated that he did not see anything in Note 9 about restatement and suggested she go back to check those

references. Ms. Farr said that the report that is online is updated but she will double check references and page numbers prior to finalizing. Member-at-Large Homan referenced page 18 of the report and stated that there is a number that appears twice; once as a liability and once as a restricted net position in the amount of \$763,479.00. He continued that they are both credits and if it is the same item, it seems like it is double counted. District Controller Martin Williams stated that is the amount that is due to Washoe County for the property tax that they did a settlement against. There was some additional discussion on this topic. Ms. Farr stated that the amount was moved from the General Fund to the Government wide presentation. She explained that if there were assets set aside, and a liability, then the net impact on equity would be zero so she agrees that the restricted equity should be zero. She continued that if the restricted balance were in the General Fund, it would stay there; it is one of those strange governmental fund accounting issues. Member-at-Large Homan pointed out page 59, item M; last paragraph where it refers to “deferred inflows of resources” and asked what the difference is between that and deferred revenue? Ms. Farr stated that the Accounting Standards Board added 2 new categories and deferred inflow of resources is one of them; she explained the detail. There was some additional discussion on this issue. Member-at-Large Tulloch stated it is difficult for him to read some of the information based on the font size. Director of Finance Navazio stated there have been a couple of things that have been discussed so far that need to be cleaned up and adjusted; Staff will make those revisions.

D.2. Receive and discuss report from Davis Farr, LLP related to supplemental engagement to review compliance with Purchasing and Contract policies and procedures (Requested by: Jennifer Farr, Partner, Davis Farr, LLP)

Ms. Farr provided an overview of the included materials. Director of Finance Navazio provided an overview of the included materials. Member-at-Large Brandle stated it seems like the previous purchase order system was manual and asked if now this will all be through Tyler Munis? Director of Finance Navazio stated yes, although, it was all through the system but the system was not set up to provide the internal controls that are required. Member-at-Large Brandle stated avoidance of the workflow is impossible at this point through Tyler Munis. Director of Finance Navazio agreed and stated it is designed to not allow that. Member-at-Large Brandle asked Ms. Farr if she was trying to aim for a value with regards to the selection criteria? Ms. Farr responded with not necessarily; she stated that they developed the

procedures with the Audit Committee; they said that they would pick the top 5 and then from there, almost haphazardly, but the goal was to try to select the remaining ones including large, medium and small. She continued that when there is a list of vendors, if you see something that has an unusual name or looks strange, those would have probably been selected over anything else and it was more of a range of over and under different approval threshold. Member-at- Large Brandle suggested sampling more of the ones that are over \$100,000, which are relatively material. He continued that he understands that there were just a few of them and understands the methodology. Member-at-Large Tulloch stated he finds some of these things a little scary. He pointed out page 17 and referred to the section pertaining to the below \$5,000 transactions; he asked if there is a total value for that and if it included aggregated procurement card transactions with the same vendor? Ms. Farr responded that they tried, to the best of their ability, to include a lot of detail and if there is a number that does not already have an explanation, they would have to look it up. She continued that the population is every disbursement other than payments to employees. District Controller Williams confirmed that this is correct. Member-at-Large Tulloch stated that more than \$5,000 annually is spent with Amazon but he does not see that appearing anywhere. District Controller Williams stated that the procurement card records were different from the payments that were made; the payments are made to the credit cards and those were provided to Ms. Farr. He continued that she did not get the individual credit card transactions and he does not believe that was requested. Member-at-Large Tulloch asked if there is a number for the total value spend below \$5,000? Ms. Farr mentioned they could calculate that and provide it; she stated they would have evaluated the payments based on the vendor that the District paid. Member-at-Large Tulloch stated from his past experience, that is where issues arise. He asked if the approval levels for signing off would be the same as the approval levels for authorizing the expenditure? Director of Finance Navazio responded with yes, the invoice approval is now also through the financial system as opposed to an email coming in; there is a workflow that will ensure that the folks with the proper authority are approving. Member-at-Large Tulloch asked if Staff is doing a 3-way match; District Controller Williams responded yes. Member-at-Large Tulloch asked about confirmation especially for work that is being done in the field; Director of Finance Navazio responded yes, there is a process and by the time it gets to his team, they are verifying that it received the correct approval. Member-at-Large Tulloch stated this is something they may want to take up in the future because the Project Engineer may disagree with what is being signed off. Director of Finance Navazio noted that the work they did on the

purchasing policy, implementing the policy, implementing Tyler and the work that Ms. Farr has done has put a spotlight on this area; Staff is much more aware of the importance of the policies, procedures and controls. Member-at-Large Tulloch pointed out page 118, section 3, and stated he was surprised by the number of transactions related to Jacobs Engineering Group given the total paid and nature of the work they did. He pointed out on page 119 and stated the purchase order was higher than the Board approved amount and asked if the workflow in Tyler has been set up so that a purchase order cannot be overspent before the change order is approved. Director of Finance Navazio stated they will not be able to order over the amount and certainly cannot pay any amount that is over. District Controller Williams added that they won't be able to order a product without the purchase order being approved high enough to order that product. Member-at-Large Tulloch stated that in the real world, the spend may go over before the Manager realizes it and he is wondering how it will be addressed. Director of Finance Navazio agreed and stated that from a strict contracting standpoint, if a vendor exceeds what they have been authorized to spend, it is technically not a liability of the District. Director of Finance Navazio stated he wants to highlight the one area they do need to address that is in Ms. Farr's recommendation related to these controls which is updating the procedures to require that when the vendor is sending their invoice, they include the purchase order number on the invoice. He continued that the system does not generate the invoices so it needs to be clarified through the procedure that when the invoices are received, Staff will be asking the vendors to include the purchase order number so Staff can better match them up as opposed to fishing for the dollar amounts by vendor. Member-at-Large Tulloch referred to page 119 and stated he is very concerned about the overpayment to Marcus Faust. He referred to page 20 and stated it sounds like the issue of people signing off on invoices has been addressed. He pointed out page 122 and mentioned the procurement card transactions and how aggregate spend is being addressed against; he stated it becomes a very easy way for people to circumvent spend limits. Director of Finance Navazio stated that for the vendors where the spend is routinely \$5,000, they are setting up purchase orders and using those instead of the procurement cards; the procurement cards should be for the incidental emergency type of purchases and not routine. Member-at-Large Tulloch pointed out page 122 and referred to the presumption of competitive solicitation and asked who the District's authorized representative is. Director of Finance Navazio stated per the policy, it is the District General Manager for items under \$100,000 and the Board of Trustees for anything over \$100,000, which is consistent with the spending authority levels.

Member-at-Large Tulloch pointed out page 123, asked if Staff has the contracts module operational and live in Tyler? Director of Finance Navazio stated that it is live and functional; Staff is going through training on the contracts module next week. Member-at-Large Tulloch referred to the development of the workflow process for Tyler and asked if Staff has looked at the internal control implications rather than just automating the previous process; Director of Finance Navazio responded yes. Member-at-Large Tulloch asked Ms. Farr if she believes with the management responses, the internal controls have been tightened up in this area. Ms. Farr stated it does seem like there will be additional systems in place and the policy improvements have already been made that should minimize the risk of having purchasing non-compliance issues. She continued that it would be unusual for any entity to never have any but this is a good step in the right direction. Member-at-Large Homan mentioned there were a number of control items that needed to be tightened up; he did not see anything about any kind of financial accounting errors that were noted and he is assuming that was part of what was looked at as well. Ms. Farr stated that is correct, they did not find anything that would result in an entry into the accounting system. Member-at-Large Homan stated that the management responses indicate a lot of this is being fixed by a combination of the new policies that are in place and reporting systems that are in place; he asked if the Audit Committee could get an overview of how the Staff thought through ensuring that there is the right system of controls. He continued that when you make a change of this magnitude, the risk picks up and the Audit Committee needs to think about how they get comfortable with the process that Staff went through to design. Director of Finance Navazio concurred and added that the Staff training piece is a part of this. He continued that within a year, Staff would be coming back to the Board of Trustees with an assessment of what might need to be tightened up; the first attempt of putting the new policy together is now being tested and practiced. Audit Committee Chair Tonking stated it would be good to get some monitoring to see how Tyler changes some of these things

D.3. Receive and discuss a verbal report from Davis Farr, LLP related to status of supplemental engagement to review compliance with District's Capitalization Policy; (Requested by Jennifer Farr, Partner, Davis Farr, LLP)

Ms. Farr provided an overview of the submitted materials. Member-at-Large Tulloch stated that a lot of this is related to work being rolled into a single work order; a mix of capital and expense work. He asked if there is enough

breakdown in the new financial system. Ms. Farr responded that there is so much detail and that is what is holding up their ability to complete the engagement due to the massive amount of transactions. She continued that it is definitely not in any sort of lump sum; it is down to the specific dollar paid to each vendor. Member-at-Large Tulloch asked if there is sufficient detail in the description of the work. Director of Finance Navazio stated that is the goal and Staff has been working on this and moving in that direction. There was some additional discussion on this issue. Member-at-Large Tulloch referred to the work order management system and asked if a sufficient break down has been given in the orders. District Controller Williams stated he has not seen any confusing information on the information and Staff is getting it as to what is being done. He continued that when a project is completed and Staff is capitalizing things, he gets together with the Project Manager and they discuss exactly what was done, what it is doing for the District and what is and is not capitalized. He stated there is a lot of communication that goes on before something becomes an asset.

D.4. Discuss and provide input to inform 2023 Audit Committee meeting schedule, work plan priorities and long-range calendar (Requesting Trustee: Audit Committee Chair Michaela Tonking)

Audit Committee Chair Tonking requested that there is a section on the agenda that is related to correspondence to the Committee. She asked that any correspondence that is received, be forwarded to herself and the District Clerk for review and for consideration of adding agenda items. She opened the floor for items that people would like the Committee to look at. Member-at-Large Homan stated he would like to see an update on the new system and control structure around that in effort get comfortable that the system is effective. He stated that in many companies, an Audit Committee will take the lead on the issue of cyber and some other companies, it is the Board of Trustees; he would like to discuss how this would be addressed. He mentioned other topics such as the Whistleblower Policy, auditor selection process and all of the outstanding items from the previous Audit Committee. Audit Committee Chair Tonking stated she is hopeful that the Whistleblower Policy will be discussed at the next meeting for review then brought to the Board of Trustees. She agreed that it is a priority to review the outstanding items from the previous Audit Committee. Member-at-Large Brandle raised the issue of an internal audit and how that would be implemented. Member-at-Large Tulloch stated that the Audit Committee has a responsibility to review and discuss correspondence that is received; the outstanding memos should be prioritized at the next meeting.

E. MEETING MINUTES (for possible action)

E.1. Meeting Minutes of September 28, 2022

Chair Tonking asked for any changes, none were submitted so the meeting minutes of September 28, 2022 were approved as submitted.

Director of Finance Navazio acknowledged the tremendous amount of work that District Controller Williams and his team have put into the audit and the financial system conversion. He also extended an offer to the Audit Committee Members should there be an interest to meet offline to review the system implementation.

Member-at-Large Tulloch stated that it would be good to have an update on internal controls.

F. PUBLIC COMMENTS*

Cliff Dobler commented that it was a pretty good meeting; he is glad to see that the new Members-at-Large are working to get up to speed and he hopes they can as this is complicated stuff at times, especially when there are so many mistakes and errors. He referred to the capitalization of assets and capitalization of expenses as assets in the past and stated you have to remember what Ms. Farr said; she is only looking at the one year. He continued that when they went back to look at the last 5 years to see what they thought were expenses, Management went back to the Auditor and since they did not have any problem with prior years, Management decided they did not need to expense anything. He stated that is looking for cover and it is not good; it needs to be backed up and his memos demonstrate how he backed it up. He stated there are 5 years of prior period adjustments and 1 more year would make it 6 years; he suggested getting it cleaned up once and for all. He continued by referring to this idea of making a broad statement and therefore just charging it, especially by 1 person with no other input from anyone from Management, and yet they are getting the information from Moss Adams. He stated they did a detailed report for them and the Audit Committee followed that report. He stated he welcomes anyone to talk to him about it and stated this needs to get resolved and it needs to get resolved within the next year; other than that it looks like the intent to deceive and he does not think it needs to go there.

G. ADJOURNMENT (for possible action)

The meeting was adjourned at 6:17 p.m.

Respectfully submitted,

Melissa N. Robertson
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.

Submitted by Aaron Katz – Written statement to be attached to and made part of the written minutes of the IVGID Audit Committee’s December 5, 2022 meeting - agenda item B – public comments – rejection of Staff’s proposed 2021-22 comprehensive annual financial report (“CAFR”)/other associated matters.

Submitted by Cliff Dobler

**WRITTEN STATEMENT TO BE ATTACHED TO AND MADE A PART OF THE WRITTEN
MINUTES OF THE IVGID AUDIT COMMITTEE'S DECEMBER 5, 2022 MEETING –
AGENDA ITEM B – PUBLIC COMMENTS – REJECTION OF STAFF'S PROPOSED
2021-22 COMPREHENSIVE ANNUAL FINANCIAL REPORT ("CAFR")/OTHER
ASSOCIATED MATTERS**

On December 4, 2022 I e-mailed the IVGID Board and its Audit Committee voicing my objections to the latter's perceived approval of the District's Draft CAFR disingenuously re-labeled as an Annual Comprehensive Financial Report ("ACFR") for the fiscal year ended June 30, 2022¹. The purpose of this written statement is to share those objections with the public and future Board members in the hope they will be embraced and never again repeated.

Let's Get it Right. The Current Audits We Pay Tens of Thousands of Dollars Annually to Secure Are Worthless: According to page 10 of the 12/5/2022 Audit Committee packet² the type of audit the District is getting is one where "the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America." As I have previously observed, although NRS 354.624(1) mandates "each local government shall provide for an annual audit of all of its financial statements," it does not mandate what kind of audit. NRS 354.486 identifies eight (8) different types of audit:

1. Determining the propriety and mathematical accuracy of material financial transactions;
2. Ascertaining whether financial transactions have been properly recorded;
3. Ascertaining whether the financial statements prepared from the accounting records fairly present in all material respects the financial position and the results of financial operations and cash flows of the governmental unit in accordance with generally accepted accounting principles in the United States and on a basis which is consistent with that of the preceding year;
4. Evaluating internal accounting controls over financial reporting of the handling of the public money and public property;
5. Determining whether the fiscal controls established by law and administrative regulations are being properly applied;
6. Determining whether there is any evidence that fraud or dishonesty has occurred in the handling of funds or property;

¹ That e-mail is attached as Exhibit "A" to this written statement.

² Go to https://www.yourtahoeplace.com/uploads/pdf-ivgid/1205_-_Audit.pdf.

7. Determining whether the acquisition, depreciation and disposition of property and equipment are accounted for in accordance with generally accepted accounting principles in the United States; and,

8. Determining whether the removal of the uncollectible accounts receivable from the records of a governmental unit is done in accordance with the procedure established by law and administrative regulations.

It seems to me that the type of audit Davis Farr is providing is option 3 above. But it's a waste. IMO if you're going to provide a meaningful and useful audit for the District, you need to concentrate on options 2, 4, 7 and 6 above in particular.

Last year Davis Farr explicitly told us that's NOT the type of audit we have signed up for. Although that's not what this nor prior Boards have signed up for, the new Board needs to learn from past mistakes. CHANGE the type of audit for 2022-23. If Davis Farr won't go along with the program, get rid of them. If the cost is more than the worthless audit we're currently getting, then so be it. If we can throw away all the money we do on the worthless after worthless after worthless expenditures staff make, then we can certainly spend it on a meaningful audit. For once!

The Government Finance Officers' Association ("GFOA") Certificate of Excellence is Nothing More Than Propaganda to the Nth Degree : Page 020 of the 12/5/2022 Audit Committee packet, which comes at the direct expense of the utility, beach and/or recreation facility fees local parcel/dwelling unit owners are compelled to involuntarily pay, is a GFOA "certificate of excellence." A worthless piece of paper because bottom line, 1) pay a fee and win an award; and, 2) all that is necessary to qualify, as documented below, is to satisfy "applicable legal requirements." And what are those requirements in Nevada?

According to NRS 354.486 "the examination and analysis of financial statements, accounting procedures and other evidence made in conformity with generally accepted auditing standards in the United States ("GAAS") for one or more (limited)...purposes." In other words, 1) comply with the law and qualify for an award; and, 2) look how "prestigious" it is to have purchased such an award. Whoopie do!

After all according to Indra, "the District expects to be granted this award for the prior annual report, which would be the twenty-first year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both GAAP and applicable legal requirements...We believe that our current Annual Financial Comprehensive Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate."

What staff have conveniently failed to share with the Board and the public is that the cost of the District's NRS compelled audit and prestigious membership in the GFOA have been allocated to

each of its various accounting funds. In other words, the utility, beach and recreation funds are paying these costs. Now why exactly is this taking place when the obligation to prepare the same has NOTHING to do with furnishing facilities for the availability to access and use of water, sewer, recreation and the beaches? Could it be that at least insofar as the General Fund is concerned (this is the fund were 100% of these costs should legitimately be assigned), staff intentionally budget to overspend? And since the money has to come from somewhere to create the illusion of a balanced budget, and there is no other revenue source readily available to the District for this purpose, the ends justify the means. What a concept Mr. "Financial Transparency."

So now that you know the truth, ask yourselves: have the expenses the District has incurred associated with the audit and GFOA been "properly recorded?" Of course they haven't. Which means the District has not complied with NRS 354.486(2). Which means it has not "examined and analyzed its)...financial statements, accounting procedures and other evidence...in conformity with" GAAP. Which means its financial reporting is not in accord with Nevada law nor the requirements for a prestigious GFOA certificate of excellence. So instead of hiding the truth, how about sharing it up front and center with the Board and the public no matter the embarrassment? In response to your perceived refusal, maybe now you're starting to learn how this how process is really just another propaganda piece for your wonderful staff?

Insofar as Our Auditor is Concerned, it's More Interested in Covering its Ass Rather Than Providing the Assurance That Most of Us Expect When it Comes With a Clean Audit: : Page 032 of the 12/5/2022 Audit Committee packet tells the Board and the public that it is "the District's management (rather than Davis Farr which) is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error." Really? What then are the auditor's responsibilities? At page 033 of the 12/5/2022 Audit Committee packet our auditor tells us "to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes (its) opinions." In other words, blind acceptance of any staff fraud and/or negligence (see no evil, hear no evil, speak no evil)!

But wait a minute. Page 110 of the 12/5/2022 Audit Committee packet represents that "adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements." Okay, what disclosures? "Minutes of the meetings of the Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared." Really? Those minutes include written statements from members of the public, including myself, which detail material misstatements due to fraud and deceit. So what adjustments Davis Farr? In fact to the contrary, listen to its misrepresentations: "We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, regulators, or others." "We have no knowledge of instances of noncompliance or

suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements." "There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets)...whose effects should be considered for disclosure in the financial statements, or...for reporting on noncompliance" (see pages 110-111 of the 12/5/2022 Audit Committee packet). Really? Where in NRS 318 do you see that GIDs are authorized to donate public property and money to third parties for whatever reasons? Where do you see they are authorized to engage in for profit (or in our case for loss) commercial business enterprises? Where do you see where GIDs are permitted to charge involuntary fees for a particular type of service, and then use those moneys for other types of service? Where do you see disregard of *Dillon's Rule*³? After all, these are all statutory limitations/omissions.

I'm sorry. Liar, liar pants on fire! How about some additional lies?

At page 112 of the 12/5/2022 Audit Committee packet Davis Farr represents that "the District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral." There are outstanding general obligation recreation bonds (see page 068 of the 12/5/2022 Audit Committee packet). Yet those bonds have pledged the District's full faith and credit, along with each of its recreational facilities, as collateral to insure payment of those bonds. Didn't you figure this out Davis Farr? And Davis Farr is supposed to be professional? And reputable? And not merely include its boiler plate language for other public agencies who are not involved in commercial business type activities in our audit.

"We are pleased to confirm our understanding of the additional services we are to provide for the Incline Village General Improvement District ('the District'). This letter will confirm the nature and limitations of the services we will provide and the various responsibilities and other terms of the engagement...At the conclusion of our engagement, we will request certain written representations from management about the subject matter information and related matters." And what are those representations? That "the District's management (rather than Davis Farr which) is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error."

³ See NRS 244.137(3)-(4) which provides that local governing boards "possess...and may exercise only the following powers and no others: (a) Those powers granted in express terms by the Nevada Constitution or statute; (b) Those powers necessarily or fairly implied in or incident to the powers expressly granted; and, (c) Those powers essential to the accomplishment of the declared objects and purposes of the county and not merely convenient but indispensable." And should there be "any fair or reasonable doubt concerning the existence of a power, that doubt is resolved against the (governing) board...and the power is denied."

Wake up people. Never, never, never agree to anything like this ever again. It's the auditor's job to root out fraud, deceit, and noncompliance with the NRS. To rely upon the wolves who misrepresent to the auditor, is a gross mistake. Yet year after year after year that's exactly what we do. And anticipating Davis Farr may not be willing to enter into an engagement letter without cover your ass language, I say GET RID OF THEM! Send them to Brad Johnson (former IVGID employee and now GM of the NTPUD). It's about time we start doing things professionally around here. Don't you think? And let's start here and now by refusing to accept Davis Farr's proposed draft for the reasons stated!

But Wait. The Auditor Has Provided Evidence of the Violation of Law: At page 020 of the 12/5/2022 Audit Committee packet Davis Farr represents "(c) An entry to increase due from other governments (governments or District departments - what other governments have financial obligations to the District?) in the General Fund in the amount of \$84,340." Now what can the auditor possibly be referring to? Let me help explain what I think it is although you committee members should get to the truth.

Your wonderful staff budget to overspend. And for 2021-22 they budgeted to overspend some \$1,570,208 in the General Fund (see Page 08, Schedule B-9 at) - although the Board packet for its May 26, 2021 meeting [see (although ((https://www.yourtahoepalace.com/uploads/pdf-ivgid/H.1._- _Budgets.pdf (https://www.yourtahoepalace.com/uploads/pdf-ivgid/Final_Budget_State_Form_4404LGF_06.09.21.pdf))) states the number to be \$1,546,624]. This forced the District to come up with an independent revenue source to plug the financial deficiency. And it was called allocated "central services costs." Phony as hell, but we can discuss this subject at a later date. Well what I believe the auditor is telling the committee is that a financial subsidy of \$1,570,208 wasn't enough. Instead our wonderful staff transferred an additional \$84,340 from the District's enterprise (utility, beach and recreation) funds. And now the auditor needs to step in and get its audit to match what staff have done...improperly! Thank you for the oversight Davis Farr!

Okay. Was this additional overspending part of the approved allocated central services cost plan adopted by the Board on May 26, 2021 "under a nonconsent item that is separately listed on the agenda for a regular meeting of the governing body" (see page 22 at https://www.yourtahoepalace.com/uploads/pdf-ivgid/H.1._- _Budgets.pdf) as NRS 354.613(1)(c) mandates? Because if it wasn't, no more conformity with the NRS. No more qualification for the prestigious GFOA certificate of excellence. And more importantly, a violation of NRS 354.626(1) inasmuch as the "expend(iture of)...any money...which by its terms involves the expenditure of money, in excess of the amounts appropriated for that function." Willful violation of which is criminal! Davis Farr's cover their ass engagement letter (see pages 126-127 of the 12/5/2022 Audit Committee packet).

Conclusion: Please incorporate the suggested changes above while you still have the opportunity. And please let the public you're doing your jobs. And to those asking why our Beach ("BFF") and/or Recreation ("RFF") Facility Fees are as high as they are, and never seem to go down, now you have another example of the reasons why.

**Respectfully, Aaron Katz (Your Community Watchdog), Because Only Now Are Others
Beginning to Watch!**

EXHIBIT "A"

December 5, 2022 Audit Committee Meeting - Agenda Items D(1)-(3) - Possible Approval of Following the presentation of the District's Draft ACFR for the Fiscal Year Ended June 30, 2022

From: <s4s@ix.netcom.com>
To: "Tonking Michaela" <tonking_trustee@ivgid.org>
Cc: "Melissa N Robertson" <mnr@ivgid.org>, "Ray Tulloch" <raytulloch@munrotulloch.com>, "Callicrate Tim" <tim_callicrate2@ivgid.org>, "Wong Kendra Trustee" <wong_trustee@ivgid.org>, "Dent Matthew" <dent_trustee@ivgid.org>, "Schmitz Sara" <schmitz_trustee@ivgid.org>, <ISW@ivgid.org>, <noble4ivgid@gmail.com>
Subject: December 5, 2022 Audit Committee Meeting - Agenda Items D(1)-(3) - Possible Approval of Following the presentation of the District's Draft ACFR for the Fiscal Year Ended June 30, 2022
Date: Dec 4, 2022 9:54 AM

Chairperson Tonking and Other Honorable Members of the District's Audit Committee -

And members of the IVGID Board given staff propose submitting the same for its approval at its December 14, 2022 meeting.

And Melissa Robertson, can you please forward this e-mail to members of the Audit Committee other than Michaela and Ray? I don't have their e-mail addresses.

I object to the proposed draft referenced in the subject line above for the following reasons:

A. Propaganda, propaganda, propaganda - Page 020 of the 12/5/2022 Audit Committee packet - which comes at the direct expense of the utility, beach and/or recreation facility fees local parcel/dwelling unit owners are compelled to involuntarily pay. This GFOA "certificate of excellence" is a worthless piece of paper because bottom line, 1) pay a fee for the award, and realize it; and, 2) all that is necessary to qualify, as documented below, is to satisfy "applicable legal requirements." And what are those requirements in Nevada? According to NRS 354.486 "the examination and analysis of financial statements, accounting procedures and other evidence made in conformity with generally accepted auditing standards in the United States ("GAAS") for one or more (limited)...purposes." In other words, 1) comply with the law and qualify for an award; and, 2) look how "prestigious" it is to have purchased such an award. Whoopie do!

According to Indra, "the District expects to be granted this award for the prior annual report, which would be the twenty-first year that the District has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both GAAP and applicable legal requirements...We believe that our current Annual Financial Comprehensive Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate."

And what staff have conveniently failed to share with the Board and the public is that the cost of the District's NRS compelled audit and prestigious membership in the GFOA have been allocated to each of its various accounting funds. In other words, the utility, beach and recreation funds are paying these costs. Now why exactly is this taking place when the obligation to prepare the same has NOTHING to do with furnishing facilities for the availability to access and use of water, sewer, recreation and the beaches? Could it be that at least insofar as the General Fund is concerned (this is the fund were 100% of these costs should legitimately be assigned), staff intentionally budget to overspend? And since the money has to come from somewhere to create the illusion of a balanced budget, and there is no other revenue source

readily available to the District for this purpose, the ends justify the means. What a concept Mr. "Financial Transparency."

So now that you know the truth, ask yourselves: have the expenses the District has incurred associated with the audit and GFOA been "properly recorded?" Of course they haven't. Which means the District has not complied with NRS 354.486(2). Which means it has not "examined and analyzed its...financial statements, accounting procedures and other evidence...in conformity with" GAAP. Which means its financial reporting is not in accord with Nevada law nor the requirements for a prestigious GFOA certificate of excellence.

So instead of hiding the truth, how about sharing it up front and center with the Board and the public no matter the embarrassment? In response to your perceived refusal, maybe now you're starting to learn how this how process is really just another propaganda piece for your wonderful staff?

B. Our Auditor is More Interested in Cover Their Asses - Page 032 of the 12/5/2022 Audit Committee packet - Here the District's auditor tells the Board and the public that it is "the District's management (rather than Davis Farr which) is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error." Really? What then are the auditor's responsibilities? "To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions" (see page 033 of the 12/5/2022 Audit Committee packet). In other words, blind acceptance of any staff fraud and/or negligence (see no evil, hear no evil)!

But wait a minute. Page 110 of the 12/5/2022 Audit Committee packet represents that "adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements." Okay, what disclosures? "Minutes of the meetings of the Board of Trustees or summaries of actions of recent meetings for which minutes have not yet been prepared." Really? Those minutes include written statements from members of the public, including myself, which detail material misstatements due to fraud and deceit. So what adjustments Davis Farr? In fact to the contrary, listen to its misrepresentations: "We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, regulators, or others." "We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements." "There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets)...whose effects should be considered for disclosure in the financial statements, or...for reporting on noncompliance" (see pages 110-111 of the 12/5/2022 Audit Committee packet). Really? Where in NRS 318 do you see that GIDs are authorized to donate public property and money to third parties for whatever reasons? Where do you see they are authorized to engage in for profit (or in our case for loss) commercial business enterprises? Where do you see where GIDs are permitted to charge involuntary fees for a particular type of service, and then use those moneys for other types of service? Where do you see disregard of Dillon's Rule? After all, these are all statutory limitations/omissions.

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Farr is supposed to be professional? And reputable? And not merely include its boiler plate language for other public agencies who are not involved in commercial business type activities in our audit.

C. Violation of Law - Which leads me back to page 020 of the 12/5/2022 Audit Committee packet - "(c) An entry to increase due from other governments (governments or District departments - what other governments have financial obligations to the District) in the General Fund in the amount of \$84,340." Now what can the auditor possibly be referring to? Let me help explain what I think it is although you committee members should get to the truth. Your wonderful staff budget to overspend. And for 2021-22 they budgeted to overspend some \$1,570,208 in the General Fund (see Page 08, Schedule B-9 at) - although the Board packet for its May 26, 2021 meeting [see (although (https://www.yourtahoepalace.com/uploads/pdf-ivgid/H.1._-_Budgets.pdf (https://www.yourtahoepalace.com/uploads/pdf-ivgid/Final_Budget_State_Form_4404LGF_06.09.21.pdf))] states the number to be \$1,546,624]. This forced the District to come up with an independent revenue source to plug the financial deficiency. And it was called allocated "central services costs." Phony as hell, but we can discuss this subject at a later date.

Well what I believe the auditor is telling the committee is that a financial subsidy of \$1,570,208 wasn't enough. Instead our wonderful staff transferred an additional \$84,340 from the District's enterprise (utility, beach and recreation) funds. And now the auditor needs to step in and get its audit to match what staff have done...improperly! Thank you for the oversight Davis Farr!

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Davis Farr's cover their ass (CTA) engagement letter (see oages 126-127 of the 12/5/2022 Audit Committee packet). "We are pleased to confirm our understanding of the additional services we are to provide for the Incline Village General Improvement District (“District”). This letter will confirm the nature and limitations of the services we will provide and the various responsibilities and other terms of the engagement...At the conclusion of our engagement, we will request certain written representations from management about the subject matter information and related matters." And what are those representations? That "the District’s management (rather than Davis Farr which) is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error."

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D. The Kind of Audit We're Getting is a Complete Waste - According to page 10 of the 12/5/2022 Audit Committee packet the type of audit the District is getting is one where "the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2022, and the respective changes in

Public Comment by Cliff Dobler- 12-5-2022 - IVGID Audit Committee

This written statement is to be made part of the meeting minutes

The Annual Comprehensive Financial Report for fiscal year ended 6-30-2022 is simply not ready for prime time. A few reasons

The District is reporting assets which are extremely overstated based on several memo's sent to the AC but not addressed and simply shoved aside.

Management continues to ignore the board requirement to have money collected for the effluent pipeline set aside and reported as restricted net position.

The financial condition of the Utility Fund is in poor shape. The "unrestricted net position" is erroneously reported as \$18.9 million. After deducting the required restriction of \$15.5 million for the pipeline, the \$5.9 million for commitments on uncompleted construction projects and \$6.2 million for required reserves, the unrestricted net position is actually a negative \$8.7 million. Talk about operating on a shoe string and misleading the public.

The Facility Fees for the Community Services and Beach Funds have not been properly reported based on recommendations from Moss Adams. The fees should be reported as program revenues in the Statement of Activities and as non operating revenues in the statement of revenues, expenses and changes in net position. What is the point of paying for recommendations from outside experts and then allowing a nobody to make accounting decisions and provide no disclosure.

I provided 10 memorandums to the AC primarily addressing IVGID capitalization of costs which should have been expensed. Six were discussed with management to follow up but never was done. Three were removed from the AC agenda in violation of Board Policy 15.1, and one was submitted but was never included on an agenda. Total expenses which should have been charge off could be as high as \$3.3 million.

Several other memos were presented wherein management only addressed charge offs for the current year 2021 but did not address charge offs for prior years costs. **Two examples are Golf Course expenses of \$509K and \$1.169 million on NDOT requirements to lift manholes and other facilities after paving projects were completed.**

I provided Ray Tulloch markups on the Management Discussion and Analysis and the Notes to the Financial Statements. Very poorly written and certainly should be farmed out to a writer.

Lastly management and the auditor are very crafty. Davis Farr provided their opinion on December 5, 2022. However, a mysterious unlabeled and unexecuted report on pages 109 to 113 could be the Management Representation Letter to the Auditor. These representations are heavily relied upon by Davis Farr allowing them to be off the hook and be able to blame IVGID staff if errors exist. So I ask the question. How could an auditor issue an opinion without a Management Representation Letter? There are so many false statements within the letter, I assume IVGID staff could not find anyone to sign it.