

## MINUTES

### **AUDIT COMMITTEE MEETING OF OCTOBER 27, 2020 Incline Village General Improvement District**

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Matthew Dent on Wednesday, October 27, 2020 at 2:00 p.m. at the Boardroom located at 893 Southwood Boulevard, Incline Village, Nevada. This meeting was conducted virtually via Zoom.

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

On roll call, present were Matthew Dent (Trustee, Chair), Cliff Dobler (At-Large Member) (absent on roll call but joined the meeting at 2:14 p.m.), Sara Schmitz (Trustee), Raymond Tulloch (At-Large Member) (absent on roll call but joined the meeting at 2:06 p.m.) and Derrek Aaron (At-Large Member).

Also present was Staff member Director of Finance Paul Navazio.

There were no members of the public present (State of Nevada, Executive Directive 006, 016, 018, 021, 026, and 029).

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

Dick Warren said he is extremely concerned about how IVGID presents their Financials ever since they abandoned Proprietary Enterprise Funds Accounting. If you look at the more recent monthly financials prepared by the Director of Finance (and he gives him credit for doing this), he has tried to ensure that the numbers tie. Unfortunately, the numbers tie (for the most part) but the descriptions of what is a "revenue" versus what is a "source of funds" is not only confusing but perhaps purposely deceiving. And that is true of what is an "expense versus a use of funds". Just look at page 5 in the August Financials, where we have a revenue source known as "Funded Capital Resources". That is B.S.! One cannot have a revenue that is a "fund balance"; for any Governmental Funds Accounting to suggest that "fund balances" are revenues is ridiculous, and wrong. So we need to get back to Proprietary Enterprise Funds Accounting (PEFA). PEFA is financial reporting on a GAAP basis, with revenues & expenses shown on an accrual basis. Obviously, accrual-based accounting is different than cash flow accounting, and there's a reason for that: accrual accounting shows any blemishes in Operations, especially when dealing with a governmental outfit like IVGID. Governmental Funds Accounting allows games to be played, similar to what our esteemed Finance Director has attempted to do. Audit Committee, demand that monthly financials are presented using Proprietary Enterprise Funds Accounting. Let's eliminate the

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garbage of Governmental Funds Accounting, which allows Staff to distort the financials.

Linda Newman said today's agenda along with recent events raises a number of alarms which warrant this Committee's immediate attention and the Chair's action to extend the timeframe for completing the 2020 Audit. First, during a critical time for the completion of the District's 2020 independent audit, the Director of Finance has been away for a three-week vacation, the District's Controller and another member of the Accounting Staff has resigned. As Director of Finance is not a licensed CPA, nor is any member of the Accounting team, who is preparing the Financial Statements for the auditor to review? And who in management can attest to their validity when in fact, the District does not have written internal controls? According to the General Manager Report in the Board packet, the "Auditor has provided review comments on preliminary draft of financial statements and notes to financial statements. Staff continues to respond to audit inquiries and is updating sections of the CAFR. Currently 11 audit adjustments that have been identified and posted. One audit adjustment is under review by staff and is not posted." Why has Staff failed to adhere to Audit Committee Policy 15.1 and presented this information to the Audit Committee? She doesn't have the answer, but you should. You cannot fulfill your responsibilities when you are handicapped by Staff's failure to follow Committee policy. You are also placed at a disadvantage when the independent auditor appears to be doing the Director of Finance's job. Staff's failure to comply with policy also extends to Staff's failure to responsibly prepare items on the agenda for this Committee's review. Please remove the discussion of the Draft MD&A, the Transmittal Letter and the Welcome Letter. It is unacceptable for our Committee Members and our Public to weigh in on material that is not presented in advance for thorough analysis and review. Staff's verbal rather than written report on the status of the Independent Financial Audit and Internal Controls are also unacceptable. Please note that although Moss Adams is examining 4 critical issues in the 2019 CAFR, there are approximately 21 outstanding accounting and reporting matters that have yet to be resolved. These must be addressed before the 2020 CAFR is completed. Yet, there is no date established on the Long Range Calendar. Change must be effectuated immediately to ensure that policies are followed, Staff is qualified to perform their duties and outside resources are made available to cure any deficits.

Mike Abel said he is concerned at our GM's lack of leadership on the control of foolish spending at IVGID. The current proposal to spend somewhere between \$250-400k on a payroll management system seems to me the absolute height of stupid. Who has reviewed this proposal. Has our staff looked at any other alternatives? Has ADP or Paychex or other payroll services been looked at or

given the option to present a proposal? No. So let's just piss away a big bunch of the taxpayers' money on a software company that will perpetually have their claws into IVGID for updates and revisions. I also do not see our GM showing any progress toward getting procurement cards under control. Whether it is a recreational staff junket to West Virginia. Another junket by our golf course management to Florida with \$300 dinners at Vincenzo Cucina Italia, perhaps another unnecessary billboard advertising Diamond Peak on I80, a \$1500 party at Lupita's, a goodbye party for the Director of Public Works, or perhaps an extra bonus for the Director of Finance, so that staff can keep him away while the auditors are here!

Margaret Martini submitted these comments as she wasn't able to get through to make her public comments - She commends Mr. Dobler for taking the time to educate the Committee and the public on the sections of the CAFR that are audited and unaudited. She also commends Chair Dent and Mr. Dobler for a well written and researched RFP for a new external auditor. She trusts you will approve the RFP with minor modifications, including the timeline for submittals. She also recommends that the responses be submitted to the Audit Committee Chair and evaluated by the Audit Committee. She cannot fathom why Staff hasn't prepared the supplements to their agenda items in advance of the meeting. If Trustees and Committee members can present all materials in advance, Staff can follow the same guidelines. Please remove all of Director of Finance's agenda items as it is unreasonable and a waste of our time to have a discussion of material that this committee and our citizens have not reviewed. It is reasonable to mandate the inclusion in the packet of all material to be discussed. Please do so. Please also note that the minutes for the September 30th Audit Committee Meeting were not posted on the District's website. They should be and measures should be taken to ensure that all agenda items and supporting material are actually posted. On another matter. She has taken note that Staff is requesting close to \$400,000 at the upcoming Board meeting for software to upgrade HR and payroll as well as a new finance and accounting system. As finance and accounting is within this Committee's purview and Mr. Aaron has expertise in this arena, she would strongly urge his involvement in evaluating the software as well as the option of outsourcing before the Board makes any decisions on this expenditure. She would hope that Trustees Dent and Schmitz will consider her recommendation when this matter comes up at the Board meeting.

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

Audit Committee Chairman Dent asked for any changes; none were received; the agenda was approved as submitted.

Audit Committee Member Sara Schmitz asked why we are spending time reviewing the draft memorandums from 2019 to 2020; she is puzzled and maybe just doesn't understand the reason. Audit Committee Chairman Dent said that drafts weren't available at that time and that he asked to have the former ones included so we can say not include this or that or add this or that and that there were included as an example and if we don't want to have any discussion, that's fine. Audit Committee Member Schmitz said she just wasn't clear as to why it wasn't provided. Trustee Dent said we can move to have a flexible agenda. Audit Committee At-Large Member Raymond Tulloch said that he didn't get an invitation and perhaps Audit Committee At-Large Member Dobler didn't get one either. Audit Committee Chairman Dent said that the agenda is approved as submitted.

**D. DISTRICT STAFF UPDATE (for possible action)**

**D.1. District's 2019/2020 Independent Financial Audit and Internal controls: Verbal update by the Director of Finance Paul Navazio on the District's 2019/2020 Independent Financial Audit being conducted by Eide Bailly and update to the Audit Committee on District's Internal Control's Review (Requesting Staff Member: Paul Navazio)**

Director of Finance Navazio gave a verbal update with the highlights being:

- ✓ Work continues
- ✓ There are some outstanding items for finalizing the financial statements
- ✓ Still working on drafts of MD&A and transmittal letter
- ✓ Resolving some outstanding items in order to update, finalize, and send to auditors and Audit Committee

Audit Committee At-Large Member Cliff Dobler said that he is very concerned about what is going on here and that he doesn't have a clue as to what is going on here and that it is totally inappropriate. Director of Finance Navazio said that it was mentioned, at the September meeting, that these were audit adjustments but rather adjusting journal entries and not auditor adjustments. Audit Committee At-Large Member Dobler said that this seems like deflection and that he didn't believe he was going to get a straight answer. Audit Committee At-Large Member Tulloch asked what was being used for materiality and why aren't we biting the bullet now and stating them now? Director of Finance Navazio said that of the items that have been

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identified, not all of them meet the materiality threshold set by the auditor. Audit Committee At-Large Member Tulloch asked what is the value still under discussion. Director of Finance Navazio said about \$300,00 across all District funds with \$70,00 being in Utilities and the balance in Community Services. Audit Committee At-Large Member Dobler said he would like to know what the materiality standards are? Director of Finance Navazio said he will follow up with the auditor to get an answer. Audit Committee Chairman Dent asked for any further questions; none were received. Director of Finance Navazio then stated that limited progress has been made on internal controls and provided a brief overview. Audit Committee Member Schmitz asked what is the concern area and the plan for addressing in the near term? Director of Finance Navazio said that the work to complete the Comprehensive Annual Financial Report (CAFR) is priority 1A and that Staff is down to a handful of items; on the budget, Staff may have to come to the Board, and that the biggest concern is getting the staffing up to speed. Audit Committee At-Large Member Derrek Aaron said that there is a fair amount to review and that he is still doing his review. The District's Controller shared with him a 30,000-foot view of IVGID systems and there are a lot of moving parts which needs to be considered and tied together. Audit Committee At-Large Member Tulloch said that we are at risk because of a couple of key individuals doing things and with regards to procurement cards, he is rather surprised it has taken a couple of months for action as we have experienced leakage. In his experience, it has never taken a long time to take action as he greatly reduced limits and reduced the number of cards which is always a very simple process and when you cut that back, it doesn't reappear elsewhere. Director of Finance Navazio said that audit report is in process and on the procurement cards, we aren't making wholesale changes but we are looking at tightening up our current policies and procedures. He is still concerned about some of the comments he hears about the District not having any internal controls. There is a balancing act from using procurement cards and the check writing process and Staff agrees to being as precise as follows. Audit Committee At-Large Member Tulloch said he disagrees about the purchasing process. District General Manager Winquest said that Audit Committee At-Large Member Tulloch brought up a good comment about times when you have specific limits and that there will be times to have that limit increased which we do and that most of the Parks and Recreation Staff have a limit of \$1,000 and if the limit is increased, it is then returned to the former limit. There are a lot of things that Community Services purchases that need to be purchased using a procurement card. Audit Committee At-Large Member Aaron said that in his 20 years of working with a lot of companies, purchase cards are fairly

common and that they have their benefits with the biggest one being convenience. There are a lot of benefits to them and if we have good controls that are enforced, he thinks purchase cards are probably a good thing.

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

**E.1. Review and discuss the Audited and not Audited 2019 CAFR (Requesting At-Large Member: Cliff Dobler)**

Audit Committee At-Large Member Dobler gave an overview of the submitted materials. Audit Committee At-Large Member Aaron said that if we don't think that Eide Bailly covered specific areas then it needs to be addressed in the next scope of work. There is a lot of standard language that they are using. Audit Committee At-Large Member Dobler said that their opinions are pretty standard language because they are guided by audit standards and it is their judgment about what is fair and material. Audit Committee At-Large Member Aaron said that materiality is done through calculations. Audit Committee At-Large Member Dobler said it is absolutely not rather it is left to more or less judgment. However, in 2016, the District had to restate the entire CAFR because there was an error in the Internal Services Fund because they have look at each fund as an individual unit. He hopes that the auditors are aware that they have to look at materiality by each individual fund. He would like to see Staff's management representation be in accordance with GAAP and the fee is far too low based on the number of transaction that we have. Director of Finance Navazio commended Audit Committee At-Large Member for going through this exercise on what is audited and what is not audited and then he reviewed pages 31 and 32. Audit Committee At-Large Member Dobler said on page 32 that he is more concerned about reporting then tying out and then he went over these same pages as well as page 35; it is because of depreciation which is something that is squirrely. What he is more concerned about is we have a charge for service. The Recreation Fee is a charge for service and not a general revenue yet it is showing as a general revenue but it is not, it is a charge for service and he is more concerned about proper presentation because tying out is an easy thing. He is more concerned about the reporting being in accordance with GAAP. Audit Committee At-Large Member Tulloch said that we should consider expanding the scope of work done by the auditors and that the move to governmental fund accounting starts to corrupt the numbers. Venues are accounting for revenues when they aren't considering the capital and thus it should be moved back to revenue accounting. Audit Committee At-Large

Member Dobler said that one of the problems that he has had with the audit's over the years is that he doesn't think enough testing has been done. Audit Committee At-Large Member Aaron said that there are two perspectives – auditor and public. From his auditing days, when they went through the materiality calculations, they reviewed invoices. Any invoice about a certain dollar amount was reviewed and if some irregularities or inconsistencies were found, they either asked for more invoices or expanded the scope. If he picked up a report of a publicly traded company and there were significant enough irregularities, it would change his action; it is different. Enterprise versus proprietary fund – he thinks that is IVGID titles and that proprietary might be more of a leading term so we should stick to that term. Director of Finance Navazio said that Audit Committee At-Large Member Aaron just stated what the process is exactly with our auditors as they asked for basic financials in order to do a materiality review. To clarify definitions, proprietary funds is a category of funds and proprietary is the business type activities that currently includes the enterprise funds and our internal funds such as fleet, buildings, and engineering. Proprietary is inclusive and if we go to enterprise for Community Services and Beaches, the only governmental fund will be the General Fund.

**E.2. Review, discuss and possibly approve 2020-2021 RFP for District Audit (Requesting Trustee: Matthew Dent)**

Audit Committee Chairman Dent turned this item over to Audit Committee At-Large Member Dobler and confirmed that supplemental information was posted and mailed to those who had requested packets. Audit Committee At-Large Member Dobler went over the submitted materials. Audit Committee At-Large Member Tulloch asked where do we advertise and who do we go with. Director of Finance Navazio said that there is a list of 30 plus audit firms that it will be sent to as a starting point. Staff can also reach out to Washoe County and other agencies and it will also be advertised on our website and through our normal bid processes. Audit Committee At-Large Member Tulloch asked if our purchase consortium had lists? Director of Finance Navazio said that he would assume the same is true in Nevada as is in California. Audit Committee At-Large Member Aaron asked if we wanted to stay within a certain region or is one consideration where they are based out of? Any NRS that states we have to make it public means it is opened up to anyone. Director of Finance Navazio said that he agrees that it is a consideration and that it might be an evaluation point. He would urge that we get as large a pool as possible and then review it. Audit Committee At-Large Member Aaron said that travel expenses might have a financial

impact. What about the idea of shortlisting? Director of Finance Navazio said yes, that is how it normally proceeds; looking at qualifications and then negotiate scope and the contract. Audit Committee At-Large Member Aaron said that there may be a few more rounds which need to be factored in as well as how quickly can Legal do their review. There are also a lot of factors that go into distribution. District General Counsel Nelson said that he did do a legal review, an initial one, and in skimming the supplemental, he thinks he can turn that around relatively quickly. Director of Finance Navazio said that page 155 has a section that needs updating and replaced with IVGID information. Audit Committee At-Large Member Dobler said for the conference scheduled for November, who will be the conference leader? How is it going to be done? Do we need it? Audit Committee At-Large Member Aaron said it is done in a public setting because then any firm can hear the questions and replies from IVGID which is nice so you don't have to repeat yourself. It should be shared among all. Director of Finance Navazio said that reference is on page 155 and that not everyone attends a pre-proposal conference so we are giving the firms two opportunities to make their proposal as responsive as possible. Audit Committee At-Large Member Aaron said he did see we have both and that he has a little bit of a concern about making the deadlines thus maybe we need to cut back on one of the two items to build in more contingency time. Audit Committee At-Large Member Dobler asked if the pre-proposal conference will be done by Zoom and do we need that? Director of Finance Navazio said yes, it will absolutely be done by Zoom and it is not a real time consuming thing and if we want to trim time, we can eliminate the questions because we would respond anyway. Staff thinks that the timeline works and doesn't think there will be any challenges with response times. Audit Committee At-Large Member Tulloch said that he would strongly encourage the pre-proposal conference as it makes life a whole lot easier and that we don't need to take the time for written questions. We can do this as an audio conference. Audit Committee At-Large Member Aaron said that some firms don't allow Zoom conferences. Audit Committee At-Large Member Dobler asked who is going to update this document and that he is okay with the schedule as written. Director of Finance Navazio said that his interest is in getting this out and then closing it out by December 16. Evaluations really do take a month. Audit Committee Member Schmitz said that we need to get this out as we are already behind schedule so we can't push it out. Director of Finance Navazio said after the RFP are opened, the evaluation starts on December 19 and that is completed in a couple of weeks. Audit Committee At-Large Member Dobler wanted to know who is the evaluation team? What is the allocation of the evaluation points? Audit Committee At-Large Member Tulloch said



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that he doesn't think the evaluation points are necessary. District General Counsel Nelson said that he would concur that it is too detailed in the RFP. Audit Committee Member Schmitz said to take it out completely on the evaluation. Director of Finance Navazio said that he would suggest that the evaluation criteria on page 166 stay in but don't put in the weighting. Audit Committee At-Large Member Dobler asked if we are leaving VI. in? Audit Committee At-Large Member Tulloch asked if we were removing some of the language in VI.a.? Audit Committee At-Large Member Dobler asked who is going to do it? Director of Finance Navazio said that we had a subcommittee that worked on this so he would suggest that Staff turn it into a final document and then review it with the subcommittee or the Audit Committee Chairman. District General Counsel Nelson concurred with that suggestion. Director of Finance said it is just clean up and that Staff can circulate it between Audit Committee At-Large Member Dobler and Audit Committee Chairman Dent. Audit Committee Member Schmitz said that Audit Committee At-Large Member Dobler has done a great job. Staff should take it and updated it and make sure that the dates hang together with the dates on page 155. Audit Committee Chairman Dent asked if there was any reason that Staff couldn't sent it out for final input? District General Counsel Nelson said if there was any feedback, it would be facilitating a discussion outside of a meeting. Audit Committee At-Large Member Dobler said if we start changing it, it is not going anywhere. Audit Committee Member Schmitz said she didn't think we should be making a whole bunch of changes. Based on prior discussion, will there be any broadening of the scope based on the comments or discussion? Audit Committee At-Large Member Dobler said that he didn't think that the transactions are being looked at all and Audit Committee At-Large Member Tulloch said it doesn't come into the audit play so we need to have an extended audit. He looked at golf and had an "Oh my God" moment but he doesn't know how to go about this. Audit Committee At-Large Member Tulloch said that he agrees with Audit Committee At-Large Member Dobler and thinks it is a different type of audit. Usually, you ask for the proposer to include things that may have been missed and while we are committed to them, it is good to get external suggestions which can easily be added so that the proposer can expanded on that topic. Audit Committee Chairman Dent said he liked that idea as it is a valuable input so Staff please add that item. Director of Finance Navazio said it is the engagement letter that spells out what they are going to do. Audit Committee At-Large Member Aaron went over the parts of the proposal and said that it is important to give people an idea of the standard and where we might want to have a deeper dive. Audit Committee Chairman Dent said, in summary, Staff will review this with one last comb through being done by the Director of Finance and

District General Counsel and then it will come back to a couple of Audit Committee members. Audit Committee At-Large Member Aaron said that we have to be aware of the Open Meeting Law and that he is happy to be a part of the final eyes on it. Audit Committee At-Large Member Tulloch said that when Staff goes through it, we have to have a redlined version and a conformed version in Word. Audit Committee Chairman Dent agreed and stated that Audit Committee At-Large Members Dobler and Aaron will be doing the review and getting it out by November 9, 2020.

**E.3. Review, discuss, and provide feedback regarding the DRAFT 2019-2020 Management Discussion and Analysis (Requesting Staff Member: Director of Finance Paul Navazio)**

Audit Committee Chairman Dent asked Director of Finance Navazio where we are on this item. Director of Finance Navazio said that he doesn't have a draft to share so he asked that the Audit Committee members please state what they want and/or don't want as he is open to feedback and that he will be the author or both documents – the Management Discussion and Analysis (MD&A) and the transmittal letter. Audit Committee Chairman Dent said that the Audit Committee will have a draft by November 6, 2020 and that there were a couple of issues that Audit Committee At-Large Member Dobler and Director of Finance Navazio were going to talk about offline.

**E.4. Review, discuss, and provide feedback regarding the DRAFT 2019-2020 Transmittal Letter (Requesting Staff Member: Director of Finance Paul Navazio)**

Audit Committee Chairman Dent said that the committee will have this in the next week and a half.

**E.5. Review, discuss, and provide feedback regarding the DRAFT 2019-2020 Welcome Letter (Requesting Staff Member: Director of Finance Paul Navazio)**

Audit Committee Chairman Dent said that the committee will have this in the next week and a half.

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

**F.1. Audit Committee Meeting Minutes of September 30, 2020**

Audit Committee Chairman asked for changes; none were made so the minutes were approved as submitted.

**G. REVIEW OF LONG RANGE CALENDAR (for possible action)**

Audit Committee Chairman Dent went over the long range calendar. Audit Committee Member Schmitz brought up the quarterly investment report; Director of Finance Navazio said it is probably appropriate for the Board of Trustees and that he will work with the District General Manager to get it onto the long range calendar for the Board of Trustees.

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

Margaret Martini passed on her opportunity to speak.

Aaron Katz said that he had two items to discussion; he sent an e-mail on October 6, 2020 requesting the committee to provide a breakdown of revenues indicated on Opengov on the Beach Fund for 2019/2020 and when he made a records request, Staff responded that they have no records; he hasn't heard anything about an investigation. He sent another e-mail on September 14, 2020 about an administrative policy for those asked for a remedy of a refund as without a remedy is becomes a violation of the United States Constitution and he has received nothing from the committee. He asks that the committee address both matters and put them on their calendar.

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

The meeting was adjourned at 4:42 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.