

MEMORANDUM

TO: Board of Trustees

THROUGH: Tim Callicrate
Board Chairman

FROM: Indra Winqest
District General Manager

SUBJECT: Review, discuss and provide direction on possible revisions to Board Policy 15.1.0 – Audit Committee

DATE: September 2, 2021

I. RECOMMENDATION

It is recommended that the Board of Trustees:

- 1) Review, discuss and provide direction on possible revisions to Board Policy 15.1.0, **and**
- 2) Direct Staff to return to the Board with a draft of revised Policy 15.1.0 incorporating Board feedback and direction.

II. BACKGROUND

Board Policy 15.1.0, establishing roles and responsibilities of the Audit Committee, was first adopted in 2009 and revised in 2017. The policy was again revised in May of 2020 to more specifically define the role and responsibilities of the Audit Committee as well as to reconfigure the Committee to be comprised of two Board-appointed Trustees and three Board-appointed At-Large members.

Under the current Board Policy 15.1.0, the Audit Committee serves to assist the Board of Trustees in fulfilling its fiduciary responsibilities by providing independent review and oversight over financial reporting, internal controls, and the independent audit of financial statements.

In addition to the scope of the Audit Committee's authority and responsibilities, Policy 15.1.0 provides that the Audit Committee is responsible for managing the procurement process for selection of the District's independent auditor, outlines the role of the Audit Committee through the annual independent audit, and charges the Audit Committee with oversight in ensuring a transparent process for

communicating and resolving complaints received by the District related to accounting practices, internal controls, auditing matters and suspected fraud.

Policy 15.1.0 also provides that the Audit Committee Charter shall be reviewed periodically with recommended changes submitted to the Board of Trustees for their consideration.

This agenda item has been prepared at the request of the Board of Trustees to serve as a starting-off point for discussion of possible revisions to Board Policy 15.1.0.

Note - This item originally appeared on the Board agenda for its meeting of July 13, 2021. However, the discussion of Board Policy 15.1 was deferred in order to allow the Audit Committee to provide its comments and suggested revisions to the existing policy. A discussion of Board Policy 15.1 was agendaized as part of a special meeting of the Audit Committee held on June 29th, as well as appearing on the agenda for Audit Committee meetings held on July 13th, August 10th and August 17th. The Audit Committee recommendations related to Board Policy 15.1 are include as part of this meeting agenda.

III. DISCUSSION

This agenda item seeks to provide the Board of Trustees with the opportunity to review Board Policy 15.1.0, following the first full year of the policy that was amended in May 2020, outlining the roles and responsibilities of the Audit Committee, modifying the structure of the Audit Committee, and providing for an Annual Report from the Audit Committee to the Board of Trustees in conjunction with the presentation of the annual audited financial statements.

Following adoption of the amended Board Policy 15.1.0 on May 6, 2020, a transition plan was developed that led to the appointment of new Committee members on June 23, 2020, followed by the convening of the first meeting of the newly re-constituted Audit Committee on July 29, 2020.

During the course of the past year, the Audit Committee was comprised of two Board-appointed Trustees (Dent and Schmitz) and three Board-appointed At-Large (public) members (Aaron, Dobler, Tulloch).

Through June of 2021 the Audit Committee held a total of 14 meetings, provided oversight to the independent external audit of the District's financial statements for the fiscal year ended June 30, 2020, provided a report to the Board of Trustees specific to the independent audit, served as a forum for review of issues and

concerns related to accounting practices, as well as past financial statements and audits, managed the procurement process for the District's new independent external auditor, and, most recently, has been developing a policy and procedure related to addressing Whistleblower complaints.

While each Board Trustee was appointed to serve a one-year term, the At-Large members were first appointed to provide for one member to serve a one-year term (Aaron) and two members to serve two-year terms (Dobler, Tulloch). Subsequently, committee member Aaron was re-appointed by the Board to serve a two year term, thus providing for staggered two-year terms for all At-Large members. At the same time, Trustee Dent chose not to seek re-appointment following completion of his one-year term, and while the Board of Trustees has re-appointed Trustee Schmitz to a new one-year term, the second Board-appointed seat on the Audit Committee remains vacant. *(Note: Committee member Derrek Aaron has since submitted his resignation, effective July 19, 2021).*

Consideration of Possible Revisions to Policy 15.1.0

The Board of Trustees' consideration of possible revisions to Board Policy 15.1.0 should appropriately focus on the extent to which the current policy and implementation thereof meets the intent of the Board in establishing the Audit Committee and, if not, how best can the policy be revised to improve alignment between Board intent and Committee expectations.

Broad areas for the Board of Trustees to consider include:

- Relationship between the Audit Committee and Board of Trustees
 - Advisory Role
 - Delegation of Authority
 - Independence
 - Final decision-making authority rests with Board of Trustees
- Scope and Responsibilities of the Audit Committee
 - Internal Controls
 - Financial Reporting
 - Independent Annual Audit of Financial Statements
 - Forum for addressing concerns/complaints
- Make-up of the Audit Committee
 - Two Board Trustees and three At-Large Members
 - Process for appointment of Committee Chair

- Meetings
 - Current policy:
 - No less than quarterly
 - Annual meeting to review audited financial statements
 - Practice: Meetings to be scheduled, as needed, to fulfill duties

- Role of Audit Committee through annual independent audit
 - Current Policy:
 - Recommendation for selection of Independent Auditor
 - Approval of Engagement Letter and Audit schedule / work plan
 - Review of “formal reports” provided to auditor by management
 - Practice / Expectation:
 - Review of draft financial statements and notes
 - Review of draft Transmittal Letter and Management Discussion and Analysis (MD&A) sections of annual financial report

- Role of Audit Committee in serving as an independent forum to resolve accounting and financial reporting issues/concerns.
 - Current Policy:
 - Issues are to be referred by Committee to appropriate organizational leader.
 - Practice:
 - Challenge in acting as “independent forum” for resolution of issues self-identified by member(s) of audit committee.
 - Conflict of interest arises when party raising issue or concern is also charged with resolving issue; erodes expectation of independence and objectivity

This report includes, via attachment, a summary table highlighting specific provisions of Board Policy 15.1.0 and related comments that the Board might consider in identifying specific areas where revisions (or clarification) could help to improve the policy and address concerns arising from interpretation of policy language or Board intent.

Audit Committee Recommended Revisions to Board Policy 15.1.0

As noted, the Audit Committee has recently held several meetings where recommended revisions to Board Policy 15.1 were included as agenda items for discussion. The most recent set of recommendations were discussed at the Audit

Committee meeting of August 17. The recommended revisions approved by the Audit Committee at their August 17 meeting have been transmitted to the Board via separate agenda item.

Provided as Attachment A to this Board memo is a table with an outline of existing Board Policy 15.1, with annotations related to sections or provisions where Board discussion and possible clarification may be helpful. These include comments provided by Board of Trustees, and was included in the July 13 agenda item.

In addition, included as supplemental attachments are documents requested by individual Trustees. These include: copies of both the current and prior versions of Board Policy 15.1 and copies of GFOA Best Practices referencing local government audit committees.

IV. COMMENTS

Since this agenda item first appeared on the Board agenda for the meeting of July 13th the Audit Committee has also forwarded to the Board of Trustees a draft Whistleblower Policy for Board consideration. The Whistleblower Policy, which was agendaized for discussion for the Board meeting of August 10, was removed from the agenda by a majority vote of the Board of Trustees, and has been deferred pending Board review and discussion of Board Policy 15.1.

Attachments:

- Table 1 - Comments Related to Selected Provisions of Board Policy 15.1.0
- Board Policy 15.1.0, adopted May 6, 2020
- Prior Board Policy 15.1.1, adopted November 11, 2017 (superseded by September 2020 update)
- GFOA Best Practices – Audit Committees
- GFOA Best Practices – Internal Control Environment

**ACCOUNTING, AUDITING and FINANCIAL REPORTING
AUDIT COMMITTEE
BOARD POLICY 15.1.0**

| Board Policy 15.1 - as amended May 6, 2020 | COMMENTS |
|---|--|
| <p>Preamble</p> <p>The Audit Committee plays a key role with respect to with respect to the integrity of the District's financial information by ensuring those responsible for financial management (management, auditors and Board of Trustees) meets their respective responsibilities for internal controls compliance and financial reporting.</p> | <p>The Audit Committee should be viewed as ADVISORY to the Board rather than given the role of "ensuring" that Board of Trustees meets its responsibilities for fiscal management.</p> |
| <p>Policy Statement</p> <p>The Audit Committee is to assist the Board of Trustees fulfill its responsibilities...by providing oversight over the District's financial reports, system of internal controls and the independent auditor's assessment of financial statements.</p> <p>The Committee will ensure open communication and maintain strong working relationship with the Board of Trustees, the General Manager, Director of Finance and Internal/external auditors.</p> | <p>Emphasis to be placed on ensuring the Independent Auditor - through their own review - objectively assess the government's financial reporting practices. <i>(The AC does not perform the role of the auditor).</i></p> <p>Need to improve working relationship...Independent oversight is hampered by adversarial positions versus the Board of Trustees, Independent Auditor(s) and management.</p> |
| <p>Organization</p> <p>The Committee shall consist of five (5) voting members. Includes two Board-appointed Trustees and three Board-appointed At-Large members.</p> <p>One voting member of the Committee shall be appointed by the Committee to serve as Chair.</p> | <p>There are variations in practice:</p> <ol style="list-style-type: none"> 1) Governing body as a whole (meeting as Audit Committee) 2) Board sub-committee (2 Trustees) 3) Trustees PLUS one or more members of the public 4) Independent public advisory body. <p>Consider establishing that Board Treasurer serve as ex-officio member of Audit Committee</p> <p>Consider adding language to clarify that all members serve at the pleasure of the Board of Trustees - and can be removed from the Committee by action of the Board.</p> <p>Board could consider requiring that Committee Chair be appointed from one of the two Board-appointed Trustees.</p> |
| <p>Policy Section</p> <p>1.0 Independent Auditor Reports Directly to the Audit Committee Independent Auditor reports directly to the Audit Committee The Audit Committee to maintain free and open communication with the independent auditor and staff</p> <p>The Independent Auditor is to bring to the attention of the Committee any additional work required, beyond the scope contained in the engagement agreement</p> | |
| <p>2.0 Scope of Audit Committee's authority and responsibilities</p> <p>It is the responsibility of the Audit Committee to provide independent review and oversight of:</p> <ol style="list-style-type: none"> 1) Financial Reporting 2) Internal Controls 3) The independent audit of financial statements | |
| <p>2.1 Be independent, effectively communicate and reinforce accountability</p> | |
| <p>2.2 Manage the external independent audit procurement process</p> | |

**ACCOUNTING, AUDITING and FINANCIAL REPORTING
AUDIT COMMITTEE
BOARD POLICY 15.1.0**

| Board Policy 15.1 - as amended May 6, 2020 | COMMENTS |
|---|---|
| 2.3 Make recommendations to the Board of Trustees and take subsequent action to engage the external auditor for the District's CAFR | Per GFOA recommendations - substitute Annual Financial Report for CAFR (no acronym) |
| 2.3.5 Approve the scope of work and audit plans by June of each year | Clarify to include approval of annual Engagement Letter and audit schedule / work plan |
| 2.4 Facilitate the external audit process | Emphasis on external INDEPENDENT audit process. |
| 2.4.1 Review and approve formal reports or letter to be submitted to the external auditor. | |
| 2.4.2 Provide an independent forum for (external and/or internal resources) auditors to report findings or difficulties encountered during the audit. | |
| 2.4.3 Review auditor's findings and recommendations with management and the auditor | |
| 2.4.4 Review CAFR in its entirety, including unaudited sections and letters | CLARIFY - does review pertain to final annual report or interim drafts? AC expressed concern this past year that they did not review drafts of Transmittal Letter and Management's Discussion and Analysis (MD&A) sections of the CAFR prior to receiving final document. |
| 2.4.5 Follow-up on any corrective action identified | CLARIFY - this follow-up should pertain to correction action identified by the independent auditor, and not necessarily corrective action dictated by the Audit Committee. |
| 2.4.6 Submit a written annual Audit Committee Report to the Board of Trustees in conjunction with the presentation of the annual audit. | CLARIFY - is this the same annual report referenced in section 2.9? The latter speaks to broader scope of report. |
| 2.5 Review financial statements; quarterly and annually for fair and accurate reporting | Currently, quarterly financial reports are presented to Board of Trustees. No formal review by AC Board MAY refer review of changes to Board Policies |
| 2.5.1 Review any changes in accounting policy | |
| 2.5.2 Ensure accounting policies are followed | |
| 2.5.3 Review any off-balance sheet financings. | |
| 2.6 Review framework of internal controls; ensuring management establishes, implements and reviews internal controls on a regular basis for functionality and effectiveness. | |
| 2.6.3 Evaluate management's identification of fraud risks, ensure the implementation of anti-fraud measures and that management is setting the tone at the top that fraud will not be accepted in any form. | Note - requires understanding of management's role to manage fraud risks, as well as independent auditor's role in assessing risk. |
| 2.7 Periodically review the District's Code of Conduct that promotes honest and ethical conduct | Code of Conduct is contained in the District's Personnel Policy Manual (Chapter 2.10). |
| 2.8 To review and refine, as necessary, the procedures for the receipt, retention, and treatment of complaints received by the District, from the public or anonymous submissions by employees of the District, regarding accounting, internal accounting controls, auditing matters, or suspected fraud. | Need to reconcile this section with scope of Whistleblower procedures under development |
| 2.9 The Audit Committee is to submit an annual report to the Board of Trustees assessing the results of its fulfillment of its duties and responsibilities. | CLARIFY - is this a separate report than the Annual Report identified in section 2.4.6, to be presented to the Board in conjunction with the annual audit? Only annual report related to audit process was presented to the Board (to date). |
| 3.0 Meetings | |
| 3.1 Meetings are to be conducted in accordance with the state's Open Meeting Law NRS 241 | While NRS 241 requires that actions of bodies consisting of only elected officials require a majority vote of members, if body includes non-elected a majority of members (present) is sufficient to pass a motion. The Board of Trustees could modify Policy 15.1 to require that a majority of appointed members is required to pass motions. |

**ACCOUNTING, AUDITING and FINANCIAL REPORTING
AUDIT COMMITTEE
BOARD POLICY 15.1.0**

| Board Policy 15.1 - as amended May 6, 2020 | COMMENTS |
|---|---|
| <p>3.2 The Committee should hold meetings at a minimum once per quarter. All members are expected to attend on a regular basis.</p> | <p>Early discussion of policy 15.1 considered setting a meeting schedule (4 x per year PLUS a special meeting dedicated to review of annual audit report. Board could consider requiring that special meetings (ex more than quarterly) be limited in number and scope. Particularly if attendance at committee meetings is to be "required."</p> |
| <p>3.3 Review correspondence to determine if any action is to be taken. If needed, assign the responsibility to investigate and resolve the concern/question to the appropriate organizational leader.</p> | <p>1) Majority of correspondence generated by Audit Committee member(s); this poses a challenge as it relates to "independent" review by AC of concerns received. 2) Audit Committee members should be providing oversight to independent resolution of issues brought to their attention, and not dictating resolution of self-identified issues/concerns.</p> |
| <p>3.6 The Audit Committee Chair shall establish the agenda for meetings and provide all briefing materials to members of the public in advance.</p> | <p>CLARIFY - AC Chair works with Board Clerk in the preparation of the agenda and supporting materials.</p> |
| <p>3.7 An annual meeting is to be held with the independent external auditor, the GM and the Director of Finance, legal counsel and anyone else as desired by the Committee to review the annual financial statements, including the CAFR and auditor's letter of findings.</p> | <p>It is recommended that this annual meeting be a dedicated single-topic meeting and be held following completion of the annual audit and presentation of final audited financial statements.</p> |

BOARD POLICY 15.1.0

Trustee Tonking Comments

Organization

Three options I would be ok with : 1. three member group (1 board member and 2 at-large) 2. a working group of two trustees 3. 5 members (2 trustees and 3 members of public. Have trustees who are not on committee each nominate the member of the public)

Look at GFOA

Consider adding language to clarify that all members serve at the pleasure of the Board and I think we need to put language around proper conduct of members

If each member nominates their members; I think the board of trustees should appoint the chair in line w. GFOA Policy

Policy Section

1.0 Independent Auditor Reports Directly to the Audit Committee

The Auditor should also bring issues directly to Board if it is something substantial

2.1 Be independent, effectively communicate and reinforce accountability

We need to discuss independence here to affirm that the same people who are bringing up issues are not also voting on them

2.4 Facilitate the external audit process

Make sure it says independent audit

2.4.4 Review CAFR in its entirety, including unaudited sections and letters

What is the purpose of the line - the A/C is not the auditor

2.4.5 Follow-up on any corrective action identified

this follow-up should pertain to correction action identified by the independent auditor, and not necessarily corrective action dictated by the Audit Committee.

2.5 Review financial statements; quarterly and annually for fair and accurate reporting

2.5.1 Review any changes in accounting policy

2.5.1 needs to be removed that is the role of the board

2.6 Review framework of internal controls; ensuring management establishes, implements

Need to think about what level of risk they are looking for here

3.0 Meetings

3.3 Review correspondence to determine if any action is to be taken. If needed, assign the responsibility to investigate and resolve the concern/question to the appropriate organizational leader.

Audit Committee members should be providing oversight to independent resolution of issues brought to their attention, and not dictating resolution of self-identified issues/coconerns.

3.6 The Audit Committee Chair shall establish the agenda for meetings and provide all briefing materials to members of the public in advance.

With staff



Accounting, Auditing, and Financial Reporting Audit Committee Policy 15.1.0

The Incline Village General Improvement District is committed to be proactive, informed, and providing the highest form of financial accountability to its parcel owners. Achieving this goal requires clear rules and procedures for making decisions and their impact on financial results. As required by Nevada Revised Statute (NRS) 354.624, each local government shall provide for an annual independent audit of all of its financial statements.

POLICY: Each year, the Board of Trustees may establish the need for an Audit Committee and appoint no less than three members to such committee. Members of the Committee shall remain in place until successors are appointed. Members of the Audit Committee should be current Board members. As a general rule, no one having managerial responsibilities that fall within the scope of the audit should serve as a committee member.

1.0 Independent auditor reports directly to the Audit Committee

The independent auditor reports directly to the Audit Committee. The Audit Committee is expected to maintain free and open communication with the independent auditor and District Staff. This communication may include periodic executive sessions with each of these parties. The independent auditor should not engage in any work that will result in billing a fee, unless authorized by the Audit Committee. This includes response to items brought forward by any internal or external source. This does not preclude the work they must perform to meet their professional responsibility.

2.0 Scope of Audit Committee's authority and responsibilities

The Audit Committee at a minimum shall have the following authority and responsibilities:

- 2.1 To select, evaluate and, if necessary, replace the District's independent auditor, and to approve all audit engagement fees and terms, subject to Board of Trustees approval.



**Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0**

- 2.2 To review, with management and the auditors, the District's annual auditor's planning, process and engagement decisions.
- 2.3 To review procedures for the receipt, retention, and treatment of complaints received by the District regarding accounting, internal accounting controls, auditing matters, or suspected fraud. Review any submissions that have been received, monitor their current status, and the document handling or disposition.
- 2.4 To review confidential and/or anonymous submission by the District's employees of concerns regarding questionable accounting or auditing matters, or suspected fraud that cannot be handled by other appropriate levels of management.
- 2.5 The Audit Committee must meet annually to consider the appointment of the District's Auditor, receive the Comprehensive Annual Audit Report and related communications. Also, if necessary to consider circumstances that arise beyond the scope of the Audit Engagement letter that could result in additional fees, and otherwise as determined the Audit Committee Chair. Meetings may be combined with regularly scheduled Board of Trustees meetings, or may be held more frequently as circumstances may require. The Audit Committee may ask members of management or others to attend the meetings and provide pertinent information as necessary.
- 2.6 To submit a written annual Audit Committee Report to the District's Board of Trustees in conjunction with the presentation of the annual audit.
- 2.7 To review and reassess, the adequacy of the Audit Committee responsibilities and recommend any proposed changes to the Board of Trustees for approval.
- 2.8 To appoint a Chair for the Audit Committee who will act as the primary contact with the independent auditor and District staff.



**Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0**

- 2.9 All members of the Audit Committee should possess or obtain a basic understanding of governmental financial reporting and auditing.
- 2.10 The Audit Committee will keep adequate minutes of its meetings and will report on its actions and activities at the next regular meeting of the District's Board of Trustees. Audit Committee members will be furnished with copies of the minutes of each Committee meeting.
- 2.11 The Audit Committee is governed by the same open meeting laws NRS 241 as long as three current District Board of Trustees members are on the Audit Committee and in attendance at the Audit Committee meetings.



Accounting, Auditing, and Financial Reporting Audit Committee Policy 15.1.0

The Incline Village General Improvement District is committed to be proactive, informed, and providing the highest form of financial accountability to its parcel owners. Achieving this goal requires clear rules and procedures for making decisions and their impact on financial results.

The Government Finance Officers Association encourages the effective use of an audit committee in the public sector and considers this committee an integral element of public accountability and governance. The Audit Committee plays a key role with respect to the integrity of the District's financial information by ensuring those responsible for financial management (management, auditors, and the Board of Trustees) meets their respective responsibilities for internal controls compliance and financial reporting.

To be effective, an audit committee should be formally established by the Board of Trustees, be adequately funded, and properly documented.

POLICY: The Audit Committee ("Committee") is to assist the Board of Trustees fulfill its responsibilities in accordance with Nevada Revised Statutes, District Policies, Practices, Ordinances, and Resolutions by providing oversight over the District's financial reports, the systems of internal controls including the internal audit plans and reports, and the independent external auditor's assessment of financial statements.

The Committee will ensure open communication and maintain strong working relationships with the IVGID Board of Trustees, the General Manager, Director of Finance, and internal/external auditors.

The Audit Committee Charter shall be reviewed periodically with recommended changes submitted to the Board of Trustees for approval.

ORGANIZATION: The Committee shall consist of five (5) voting members. This includes two Board appointed Trustees and three Board appointed qualified At-Large Members. The Committee can be expanded to an odd number. Recommendations for expanding the number of voting members will be approved by the Committee and submitted to the Board of Trustees for approval. The Committee is to retain a financial advisor, potentially a resource from the external audit firm, to attend meetings, provide guidance and training, as needed.

Members of the Audit Committee should obtain an understanding of accounting, auditing, financial reporting, and internal control to be able, with the assistance of



Accounting, Auditing, and Financial Reporting Audit Committee Policy 15.1.0

a financial advisor, to deliberate on issues for which the Committee is responsible. Therefore, the Board of Trustees may need to budget for an outside financial advisor to assist the Committee with the independent conduct of its work. The financial advisor will be responsible for ensuring the Committee members receive training relative to internal controls, understanding of financial reports, internal audit processes, governmental regulations, and other pertinent information. The advisor should possess the following qualifications:

- A thorough understanding and experience with Generally Accepted Accounting Principles (GAAP), Government Accounting Standard Board (GASB), and financial reporting for the public sector
- Experience either preparing or auditing financial statements for similar entities
- Experience with accounting estimates and accruals
- Experience with financial internal controls
- An understanding of the function of an audit committee

Committee members shall be independent. They shall not accept any consulting, advisory, or other compensatory fee from the District. All members shall not be an affiliated person with the District.

- Annually, the Board of Trustees will appoint two Trustees to be voting members. Appointing Trustees to serve successive years increases the consistency and allows for knowledge retention. In the event a Trustee is removed or resigns, the Board of Trustees shall appoint a new member to the committee.
- At-Large Members shall be appointed by the Board of Trustees from applicants with appropriate expertise with staggering two-year terms.
 - For the first appointment, one member will serve a one-year term and the other two will serve a two-year term.
 - Each subsequent appointment will serve two-year terms.

One voting member of the Committee shall be appointed by the Committee to be the Chair. The Chair will schedule all Committee meetings and provide Committee members with a written agenda for each meeting. Committee Members may request agenda items for the Chair's consideration and approval.

The voting Committee members are limited to two 2-year terms which may be extended in the event there are no interested and qualified applicants.



**Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0**

1.0 Independent auditor reports directly to the Audit Committee

The independent auditor reports directly to the Audit Committee. The Audit Committee is expected to maintain free and open communication with the independent auditor and District Staff. This communication may include periodic executive sessions with each of these parties. The independent auditor is to bring to the attention of the Committee any additional work required, beyond the scope of work contained in the engagement agreement, to fulfill their responsibilities.

2.0 Scope of Audit Committee's Authority and Responsibilities

It is the responsibility of the Committee to provide independent review and oversight of:

1. Financial reporting
2. Internal controls
3. The independent audit of financial statements

To fulfill these responsibilities, the Committee must:

- 2.1 Be independent, effectively communicate, and reinforce accountability.
- 2.2 Manage the external independent audit procurement process.
 - 2.2.1 Ascertain that the Request For Proposal (RFP) for a firm to be retained by the District for the annual financial audit is no more than five fiscal years with those directly supervising audit staff rotating at least every two years and audit engagement partners rotating at least every three years.
 - 2.2.2 Select the independent external auditor.
- 2.3 Make recommendations to the Board of Trustees and take subsequent action to engage an external auditor for the District's Comprehensive Annual Financial Report (CAFR)
 - 2.3.1 Make recommendations on the scope of work including the identification of funds to be audited.



**Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0**

- 2.3.2 If deemed necessary, identify and recommend additional services to be performed.
- 2.3.3 By March 31st of each year, the Board of Trustees is to formally designate an external audit firm and inform the Nevada Department of Taxation.
- 2.3.4 When appropriate replace the independent external auditors or auditing firms doing work for the District and initiate the procurement process (2.2).
- 2.3.5 Approve the scope of work and audit plans by June of each year.
- 2.4 Facilitate the external audit process.
 - 2.4.1 Review and approve formal reports or letters to be submitted to the external auditor.
 - 2.4.2 Provide an independent forum for (external and/or internal resources) auditors to report findings or difficulties encountered during the audit.
 - 2.4.3 Review the auditors' report of findings and recommendations with management and the auditor.
 - 2.4.4 Review the CAFR in its entirety, including unaudited sections and letters.
 - 2.4.5 Follow -up on any corrective action identified.
 - 2.4.6 Submit a written annual Audit Committee Report to the District's Board of Trustees in conjunction with the presentation of the annual audit.
 - 2.4.7 Assess the performance of the independent auditors.
- 2.5 Review the financial statements; quarterly and annually for fair and accurate reporting.
 - 2.5.1 Review any changes in accounting policy.
 - 2.5.2 Ensure accounting policies are followed.
 - 2.5.3 Review any off-balance sheet financings.
- 2.6 Review the framework of internal controls; ensuring management establishes, implements and reviews internal controls on a regular basis for functionality and effectiveness.



**Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0**

- 2.6.1 Review the annual internal control audit plan(s).
- 2.6.2 Review management's annual assessment of their internal controls for prior year's audit plan.
- 2.6.3 Evaluate management's identification of fraud risks, ensure the implementation of anti-fraud measures and that management is setting the tone at the top that fraud will not be accepted in any form.
- 2.6.4 The Committee may identify a need to engage an external Internal Auditor to address a specific area of concern.
 - 2.6.4.1 The Committee will review and approve or modify Management's proposal for the scope of work and selection of the resource.
 - 2.6.4.2 Management is responsible for engaging the resource to perform the scope of work and overseeing contract deliverables.
 - 2.6.4.3 Management will have the responsibility for implementation of identified internal control changes or enhancements.
 - 2.6.4.4 Management will report the findings and resolutions to the Committee.
- 2.7 Periodically review the District's code of conduct that promotes honest and ethical conduct; full, fair, accurate, timely, and understandable disclosure in periodic reports; and compliance with applicable policies to ensure it is adequate and up-to-date.
- 2.8 To review and refine as necessary the procedures for the receipt, retention, and treatment of complaints received by the District, from the public or anonymous submissions by employees of the District, regarding accounting, internal accounting controls, auditing matters, or suspected fraud.
 - 2.8.1 Review and refine as needed the procedures for educating employees on their individual role in ensuring the District's financial integrity.
 - 2.8.2 Ensure employees of the District have an anonymous method for concerns to be submitted.
 - 2.8.3 Publicize the means for the public and employees to submit concerns to the Audit Committee.



Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0

2.8.4 Review any submissions received, monitor the status of all submissions, ensure their timely resolution, and the document handling or disposition.

2.9 The Audit Committee is to submit an annual report to the Board of Trustees assessing the results of its fulfillment of its duties and responsibilities.

3.0 Meetings

3.1 Meetings are to be conducted in accordance with the state's Open Meeting Law NRS 241. The Board of Trustees will be emailed a copy of the meeting minutes. Meeting minutes will be posted on the District website.

3.2 The committee will hold meetings at a minimum of once per quarter. All members are expected to attend on a regular basis.

3.3 Review correspondence to determine if any action is to be taken. If needed, assign the responsibility to investigate and resolve the concern/question to the appropriate organizational leader. Communicate with the submitter, if known, regarding their submitted concern.

3.4 Review all past correspondence with action outstanding. Ensure responses and/or corrective action is taken in a timely manner.

3.5 The committee may ask members of management or others to attend meetings and provide pertinent information as necessary.

3.6 The committee Chair shall establish the agenda for meetings and provide all briefing materials to members and the public in advance.

3.7 An annual meeting is to be held with the independent external auditors, the General Manager, the Director of Finance, legal counsel and anyone else as desired by the Committee to review the audited annual financial statements including the Comprehensive Annual Financial Report (CAFR) and the auditor's letter of findings.



BEST PRACTICES

Internal Control Environment

Governments should demonstrate a commitment to the framework, assume responsibility for overseeing internal control, develop organization structures and accountability, commit to attracting and retaining competent employees, and hold individuals accountable.

In its *Establishing a Comprehensive Framework for Internal Control (Framework)* best practice, GFOA recommended that state, provincial, and local governments adopt the Committee of Sponsoring Organizations' (COSO) *Internal Control—Integrated Framework* (2013) as their conceptual basis for designing, implementing, operating, and evaluating internal control so as to provide reasonable assurance that they are achieving their operational, reporting, and compliance objectives. To support governments' efforts in this area, GFOA is developing best practices that explain how to implement each of the five components of that framework. This best practice focuses on the first of those five components, the control environment, which the COSO has defined as a set of standards, processes, and structures that provide the basis for carrying out internal control.

GFOA recommends that governments do all of the following to establish a strong internal control environment:

1. The governing body, upper level management, and all levels of staff throughout the organization should demonstrate a commitment to the framework, as follows:
 - Officially adopt the framework (governing body);
 - a. Adopt a policy to incorporate the implementation, maintenance, and updating of the framework into the government's strategic goals (governing body);
 - b. Develop standards of conduct for employees and provide training on those standards;
 - c. Require management and employees to sign a statement that they will follow the standards of conduct and to reaffirm that commitment periodically; and

- d. Include compliance with standards of conduct as part of employee evaluations to ensure accountability.
2. The governing body should assume responsibility for overseeing internal control by:
 - a. Actively overseeing management's development and implementation of the framework;
 - b. Actively monitoring the performance of the framework;
 - c. Obtaining training about the nature and purpose of internal control sufficient to allow members of the governing body to meaningfully perform their oversight function with the assistance of an expert;
 - d. Obtaining expert advice, independent of management, to help it perform its oversight function if no member of the audit committee possesses that expertise;
 - e. Establishing an audit committee made up of members of the governing body;
 - f. Documenting that it has reviewed the framework and its updates;
 - g. Approving significant control-related policies; and
 - h. Determining how often policies and procedures need to be reviewed, reaffirmed, and updated.
 3. Management should develop organizational structures and ensure staff accountability by:
 - a. Creating a formal organizational chart for both the government as a whole and for each of its departments;
 - b. Requiring written procedures for important government processes (for example, payroll);
 - c. Developing flowcharts of each significant process;
 - d. Maintaining electronic copies of process flowcharts to facilitate updating;
 - e. Identifying responsibilities for workflow approvals in their systems; and
 - f. Making sure systems incorporate compensating controls.
 4. Governments should commit to attracting and retaining competent employees by:
 - a. Developing comprehensive job descriptions;
 - b. Ensuring that hiring panels include experts in the desired skill sets;
 - c. Providing opportunities for employees to gain continuing professional education to stay current in their field;
 - d. Encouraging membership in professional organizations to develop networking;
 - e. Supporting the development of succession planning;

- f. Cross-training staff;
 - g. Thoroughly documenting the responsibilities of each position and appropriate processes for succession planning;
 - h. Providing managerial training, in addition to technical training, for staff members who will be promoted;
 - i. Requiring that supervisors give staff members hands-on training on key responsibilities; and
 - j. Developing an ongoing mentoring program to enhance employees' skills.
5. Governments should hold individuals accountable for their internal control responsibilities by:
- a. Preparing comprehensive, fact-based performance appraisals;
 - b. Providing performance appraisals on a timely basis;
 - c. Taking disciplinary action if conduct is not consistent with expected performance;
 - d. Including internal control goals as part of employee performance reviews;
 - e. Identifying zero-tolerance policies (e.g., theft) and adhering to them; and
 - f. Ensuring that union agreements clearly delineate responsibilities up front.

Notes:

- 1. If the governing body is elected, rather than appointed, the term *governing body* would apply to both members of the governing body and the elected officials to whom they report

This best practice was previously titled Framework for Internal Control: The Control Environment.

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BEST PRACTICES

Audit Committees

Establish audit committees, made up of appropriate audit committee members, that are responsible for review, oversight, establishing procedures, and providing a written report.

Three main groups are responsible for the quality of financial reporting: the governing body,¹ financial management, and the independent auditors. Of these three, the governing body must be seen as first among equals because of its unique position as the ultimate monitor of the financial reporting process.² An audit committee is a practical means for a governing body to provide much needed independent review and oversight of the government's financial reporting processes, internal controls, and independent auditors. An audit committee also provides a forum separate from management in which auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure that management properly develops and adheres to a sound system of internal controls, that procedures are in place to objectively assess management's practices, and that the independent auditors, through their own review, objectively assess the government's financial reporting practices.³

GFOA makes the following recommendations regarding the establishment of audit committees by state and local governments:

- The governing body⁴ of every state and local government should establish an audit committee or its equivalent;
- The audit committee should be formally established by charter, enabling resolution, or other appropriate legal means and made directly responsible⁵ for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing an independent audit report or performing other independent audit, review, or attest services.⁶ Likewise, the audit committee should be established in such a manner that all accountants thus engaged report directly to the audit committee. The written documentation establishing the audit committee should prescribe the scope of the committee's responsibilities, as well as its structure, processes, and membership

requirements. The audit committee should itself periodically review such documentation, no less than once every five years, to assess its continued adequacy;⁷

- Ideally, all members of the audit committee should possess or obtain a basic understanding of governmental financial reporting and auditing.⁸ The audit committee also should have access to the services of at least one financial expert, either a committee member or an outside party engaged by the committee for this purpose. Such a financial expert should through both education and experience, and in a manner specifically relevant to the government sector, possess 1) an understanding of generally accepted accounting principles and financial statements; 2) experience in preparing or auditing financial statements of comparable entities; 3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves; 4) experience with internal accounting controls; and 5) an understanding of audit committee functions;⁹
- All members of the audit committee should be members of the governing body. To ensure the committee's independence and effectiveness, no governing body member who exercises managerial responsibilities that fall within the scope of the audit should serve as a member of the audit committee;
- An audit committee should have sufficient members for meaningful discussion and deliberation, but not so many as to impede its efficient operation. As a general rule, the minimum membership of the committee should be no fewer than three;¹⁰
- Members of the audit committee should be educated regarding both the role of the audit committee and their personal responsibility as members, including their duty to exercise an appropriate degree of professional skepticism;
- It is the responsibility of the audit committee to provide independent review and oversight of a government's financial reporting processes, internal controls and independent auditors;¹¹
- The audit committee should have access to the reports of internal auditors, as well as access to annual internal audit work plans;
- The audit committee should present annually to the full governing body a written report of how it has discharged its duties and met its responsibilities. It is further recommended that this report be made public and be accompanied by the audit committee's charter or other establishing documentation;
- The audit committee should establish procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting controls, or auditing matters. Such procedures should specifically provide for the confidential, anonymous submission by employees of the government of concerns regarding questionable accounting or auditing matters.¹² The audit committee also should monitor controls performed directly by senior management, as well as controls designed to prevent or detect senior-management override of other controls¹³;

- The audit committee should be adequately funded and should be authorized to engage the services of financial experts, legal counsel, and other appropriate specialists, as necessary to fulfill its responsibilities¹⁴; and
- In its report to the governing body, the audit committee should specifically state that it has discussed the financial statements with management, with the independent auditors in private,¹⁵ and privately among committee members,¹⁶ and believes that they are fairly presented, to the extent such a determination can be made solely on the basis of such conversations.

Notes:

1. For the purposes of this recommended practice, the term "governing body" should be understood to include any elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do not exercise managerial responsibilities within the scope of the audit. The term governing body also is intended to encompass appointed bodies such as pension boards.
2. *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Overview and Recommendations.
3. Securities and Exchange Commission (SEC) Regulation 33-8220, Background and Overview of the New Rule and Amendments. ☒
4. For the purposes of this recommended practice, the term "governing body" should be understood to include any other elected officials (e.g., county auditor, city controller) with legal responsibility for overseeing financial reporting, internal control, and auditing, provided they do *not* exercise managerial responsibilities within the scope of the audit. The term "governing body" also is intended to encompass appointed bodies such as pension boards.
5. Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.
6. Sarbanes Oxley Act, Section 301.
7. *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Recommendation 4.
8. *Report and Recommendations of the Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees*, Recommendation 3. Continuity typically is a positive factor in achieving this goal, a fact that should be kept in mind when considering the appropriate length of service for audit committee members.

9. Sarbanes-Oxley Act, Section 407.
10. In certain limited instances, as noted later, the audit committee will need to meet privately to achieve its goals. If the audit committee constitutes a majority of the governing body, such private meetings may be hampered by sunshine laws and similar open meetings legislation.
11. SEC Regulation 330-8220, Background and Overview.
12. Sarbanes Oxley Act, Section 301.
13. *Internal Control Integrated Framework: Guidance on Monitoring Internal Control Systems* (Discussion Document of the Committee of Sponsoring Organizations COSO, 2007), page 10.
14. Nothing in this recommended practice should be interpreted so as to limit the full governing body from exercising ultimate authority.
15. It is important that the audit committee be able to meet privately with the independent auditors, as needed, to ensure a full and candid discussion. Governments are urged to amend sunshine laws and similar open meetings legislation to permit such encounters in these limited circumstances.
16. It is important that audit committee members be able to meet privately among themselves, as needed, to ensure a full and candid discussion. Governments are urged to amend sunshine laws and similar open meetings legislation to permit such an encounter in these limited circumstances.

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