

# NOTICE OF MEETING

The regular meeting of the Incline Village General Improvement District will be held starting at **5:00 p.m.** on **September 30, 2021** in the Chateau at 955 Fairway Boulevard, Incline Village, Nevada.

**In accordance with the Governor's Emergency Directive, all those in attendance will be required to wear a mask. Thank you, in advance, for your compliance**

- A. PLEDGE OF ALLEGIANCE\*
- B. ROLL CALL OF TRUSTEES\*
- C. INITIAL PUBLIC COMMENTS\* - *Unless otherwise determined, the time limit shall be three (3) minutes for each person wishing to make a public comment. Unless otherwise permitted by the Chair, no person shall be allowed to speak more than once on any single agenda item. Not to include comments on General Business items with scheduled public comment. The Board of Trustees may address matters brought up during public comment at the conclusion of the comment period but may not deliberate on any non-agendized item.*
- D. APPROVAL OF AGENDA (for possible action)
- The Board of Trustees may make a motion for a flexible agenda which is defined as taking items on the agenda out of order; combining agenda items with other agenda items; removing items from the agenda; moving agenda items to an agenda of another meeting, or voting on items in a block.*
- OR-**
- The Board of Trustees may make a motion to accept and follow the agenda as submitted/posted.*
- E. DISTRICT GENERAL MANAGER UPDATE (for possible action) – **pages 4 - 14**
- F. REVIEW OF THE LONG RANGE CALENDAR (for possible action) – **page 15**
- G. REPORTS TO THE BOARD\* - Reports are intended to inform the Board and/or the public.
1. Treasurers Report (for possible action)
    - A. Payment of Bills (for possible action) (For District payments exceeding \$10,000 or any item of capital expenditure, in the aggregate in any one transaction, a summary of payments made shall be presented to the Board at a public meeting for review. The Board hereby authorizes payment of any and all obligations aggregating less than \$10,000 provided they are budgeted and the expenditure is approved according to District signing authority policy) (Requesting Trustee: Treasurer Michaela Tonking) – **page 16**
  2. Fiscal Year 2020/21 Fourth Quarter Budget Update: Fourth Quarter Financial Report Through June 30, 2021 (Requesting Staff Member: Director of Finance Paul Navazio) – **pages 17 - 46**
  3. Fiscal Year 2020/21 Fourth Quarter Budget Update: Popular CIP Status Report Through June 30, 2021 (Requesting Staff Member: Director of Finance Paul Navazio) – **pages 47 - 50**
- H. CONSENT CALENDAR (for possible action) (In cooperation with the Chair, the General Manager may schedule matters for consideration on a Consent Calendar. The Consent Calendar may not include changes to budget, user rates or taxes, adoption or amendment of ordinances, or any other action which is subject to a public hearing. Each consent item shall be separately listed on the agenda, under the heading of "Consent Calendar". A memorandum containing all relevant information will be included in the packet materials for each Consent Calendar item. The memorandum should include the justification as a consent item in the Background Section. Any member of the Board may request the removal of a particular item from the Consent Calendar and that the matter shall be removed and addressed in the General Business section of the meeting. A unanimous affirmative vote shall be recorded as a favorable motion and approval of each individual item included on the Consent Calendar.)

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## Incline Village General Improvement District

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

893 Southwood Boulevard, Incline Village, Nevada 89451 • (775) 832-1100 • FAX (775) 832-1122

www.yourtahoeplace.com

# NOTICE OF MEETING

Agenda for the Board Meeting of September 30, 2021 - Page 2

1. Review, discuss and possibly approve the Mathis Group Pre-Contract Board and Executive Team Interviews Proposal in the total amount of \$8,000 (Requesting Trustee: Board Chairman Tim Callicrate) – **pages 51 - 53**
- I. GENERAL BUSINESS (*for possible action*)
  1. Review, discuss and provide to the District General Manager: (Requesting Trustee: Board Chairman Tim Callicrate) – **pages 54 - 110**
    - (a) Performance Evaluation (in accordance with the District General Manager’s Employment Agreement, Section 7, PERFORMANCE EVALUATION)
    - (b) Merit Salary Increase  
Review, discuss and possibly propose changes to the District General Manager’s Employment Agreement (in accordance with the District General Manager’s Employment Agreement, Section 3. SALARY, subparagraph 3.3 and Section 7. PERFORMANCE EVALUATION, subparagraph 7.3)
    - (c) Contract Extension  
Review, discuss and possibly propose changes to the District General Manager’s Employment Agreement (in accordance with the District General Manager’s Employment Agreement, Section 2, TERM OF AGREEMENT)
    - (d) Phone/Technology Allowance  
Review, discuss and possibly propose changes to the District General Manager’s Employment Agreement (in accordance with the District General Manager’s Employment Agreement, Section 4, BENEFITS, subparagraph 4.4)
  2. Review, discuss and possibly approve augmentations to the FY2021/22 approved budget to reflect carry-over of available appropriations from the FY2020/21 capital budget to support ongoing capital improvement projects (Requesting Staff Member: Director of Finance Paul Navazio) – **pages 111 - 114**
  3. Review, discuss, and potentially approve a scope of work for special legal counsel related to the beach deed and authorize the General Manager to execute a contract with counsel not-to-exceed \$25,000 (Requesting Staff Member: District General Counsel Joshua Nelson) – **pages 115 - 120**
  4. Review, discuss and possibly approve the District’s Strategic Plan for 2021-2023 (Requesting Staff Member: District General Manager Indra Winquest) – **pages 121 - 182**
  5. Policy 15.1.0: Accounting, Auditing and Financial Reporting, Audit Committee: Review and update from the September 2, 2021 Board Meeting – continuing discussion (Requesting Trustee: Board Chairman Tim Callicrate) – **pages 183 - 259**
  6. Review, discuss, and possibly provide direction on next steps to further discuss and/or recommended revisions to Policy 16.1.1 Recreation Roll Policy (Requesting Staff Member: District General Manager Indra Winquest) – **pages 260 - 341**
- J. FINAL PUBLIC COMMENTS\* - Limited to a maximum of three (3) minutes in duration.
- K. ADJOURNMENT (*for possible action*)



# NOTICE OF MEETING

Agenda for the Board Meeting of September 30, 2021 - Page 3

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## CERTIFICATION OF POSTING OF THIS AGENDA

I hereby certify that on or before Monday, September 27, 2021 at 9:00 a.m., a copy of this agenda (IVGID Board of Trustees Session of September 30, 2021) was delivered to the post office addressed to the people who have requested to receive copies of IVGID's agendas; copies were e-mailed to those people who have requested; and a copy was posted, physically or electronically, at the following locations in accordance with Assembly Bill 253:

1. IVGID Anne Vorderbruggen Building (893 Southwood Boulevard, Incline Village, Nevada; Administrative Offices)
2. IVGID's website ([www.yourtahoeplace.com/Board of Trustees/Meetings and Agendas](http://www.yourtahoeplace.com/Board of Trustees/Meetings and Agendas))
3. State of Nevada public noticing website (<https://notice.nv.gov/>)

/s/ Susan A. Herron, CMC

Susan A. Herron, CMC

District Clerk (e-mail: [sah@ivgid.org](mailto:sah@ivgid.org)/phone # 775-832-1207)

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**Board of Trustees:** *Tim Callicrate - Chairman, Matthew Dent, Sara Schmitz, Kendra Wong, and Michaela Tonking.*

**Notes:** *Items on the agenda may be taken out of order; combined with other items; removed from the agenda; moved to the agenda of another meeting; moved to or from the Consent Calendar section; or may be voted on in a block. Items with a specific time designation will not be heard prior to the stated time, but may be heard later. Those items followed by an asterisk (\*) are items on the agenda upon which the Board of Trustees will take no action. Members of the public who are disabled and require special accommodations or assistance at the meeting are requested to call IVGID at 832-1100 at least 24 hours prior to the meeting. **IVGID'S agenda packets are available at IVGID's website, [www.yourtahoeplace.com](http://www.yourtahoeplace.com); go to "Board Meetings and Agendas".***

## MEMORANDUM

**TO:** Board of Trustees

**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 9, 2021

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### **I. RECOMMENDATION**

It is recommended that the Board of Trustees:

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

### **II. BACKGROUND**

This agenda item has been prepared to facilitate the Board's continued discussion and direction on possible revisions to Policy 15.1.0 – Audit Committee.

Board Chairman Callicrate had requested that the discussion be continued to allow for all Trustees to provide input as well as to allow for any Trustee who so desired to provide written comments or suggested revisions, adding to the materials that were provided to the Board as part of the September 2, 2021 agenda packet.

Included in with this agenda item are comments provided by Trustee Wong as well as a revised version of the Audit Committee's recommended revisions prepared by Audit Committee Chair Tulloch.

Attachments:

- Board Policy 15.1.0 – adopted May 6, 2020
- Trustee Comments (Tonking and Wong)
- Update of Recommended Revisions from Audit Committee Chair Tulloch
- Board Memo – September 2, 2021 agenda : Board Policy 15.1.0
- Chapter 2: Audit Committee Charter Matrix from Trustee Schmitz
- Markup of Policy 15.1.0 from Trustee Schmitz

# Attachment

**Board Policy 15.1.0 –  
adopted May 6, 2020**



**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.

# Attachment

## Trustee Comments (Tonking and Wong)

## BOARD POLICY 15.1.0

Trustee Tonking Comments
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### 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

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### 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

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#### 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

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#### 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*

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#### 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.*

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#### 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*

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

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

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### 3.0 Meetings

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#### 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/concerns.

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#### 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*

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

**PROPOSED REVISIONS FOR DISCUSSION**

The Incline Village General Improvement District is committed to be proactive, informed, and to provide the highest level of financial accountability and transparency to its parcel owners and other stakeholders (i.e., the State of Nevada).

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The Government Finance Officers Association (GFOA) encourages the effective use of an audit committee in the public sector and considers such a committee an integral element of public accountability and governance. An Audit Committee plays a key role with respect to overseeing the integrity of the District's annual financial statements (the "CAFR") by ensuring those responsible for financial management (Management, and the Board of Trustees) meet their responsibilities for maintaining an effective system of internal controls over financial reporting.

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**Commented [KW1]:** Is the objective to utilize best practices from the GFOA and industry or not? This policy deviates from both best practices and I think we need clear justification if we are not going to follow best practices (i.e. board member as AC members, scope of AC responsibilities)

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 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<sup>1</sup>.

An audit committee should be formally established by the Board of Trustees, be adequately funded, and be subject to a formally approved Audit Committee Charter.

**POLICY:** The Audit Committee (the "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 system of internal controls including the internal audit plans and reports, and the independent auditor's reports within the CAFR.

The Committee shall have open communication with and maintain strong working relationships with the IVGID Board of Trustees, the General Manager, Director of Finance, and the independent auditor.

<sup>1</sup> Source: GFOA Best Practices, Audit Committee

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

This Committee shall review the Charter annually with any recommended changes submitted to the Board of Trustees for consideration and approval.

**ORGANIZATION:** The Committee shall consist of five (5) voting members. This includes two Board members appointed annually by the Trustees and three members appointed by the Trustees to serve as qualified At-Large Members. Any recommendations for expanding the number of voting members will be recommended by the Committee and submitted to the Board of Trustees for approval. The Committee may retain financial or other appropriate advisors to attend meetings, provide guidance and training, as needed, and as approved by the Board of Trustees for financial expenditures.

Members of the Committee should have or shall obtain an understanding of accounting, auditing, financial reporting, and internal controls to be able, with the assistance of an advisor if needed, to deliberate on issues for which the Committee is responsible. Therefore, the Board of Trustees may need to budget for periodic training of the Committee members and an outside advisor to assist the Committee with the independent conduct of its work. Any advisor so engaged should possess the following qualifications:

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

At-Large 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.

At-Large Committee members shall be expected to comply with all District policies that apply to volunteers as published on the District's website.

- Annually, the Board of Trustees will appoint two Trustees to be Committee members. In the event a Trustee is removed or resigns, the Board of Trustees shall appoint a new member to the Committee. In accordance with GFOA recommendations, Trustees considered for appointment to the

Adopted May 6, 2020 DRAFT KW COMMENTS

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**Commented [KW2]:** Does not conform to GFOA Best Practices. AC should all be BoT members.

In addition to GFOA best practices, here are resources on public company independence definitions:  
NASDAQ Definition of Independent Director: [Rules | The Nasdaq Stock Market](#)  
NYSE Independence Tests: [Microsoft Word - Document1 \(nbco.com\)](#)

Based on these definitions of "independent" directors for public companies, all the BoT members are independent.

Omitted AICPA Guide on Independence as it relates to auditor independence and not director/AC independence: [plain english guide.pdf \(aicpa.org\)](#)

**Commented [KW3R2]:** Other resources: CGMA guide to Government Audit Committees [Government Audit Committees – Part 1 – Charter, Roles and Responsibilities \(cgma.org\)](#)  
AICPA Governmental Audit Quality Center [Governmental Audit Quality Center \(GAQC\) \(aicpa.org\)](#)  
AICPA Center for Audit Quality [Center for Audit Quality \(CAO\) \(aicpa.org\)](#)  
AICPA Audit Committee Effectiveness Center [Audit Committee Effectiveness Center \(aicpa.org\)](#)

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**Commented [KW4]:** The Audit Committee does not have authority to expend funds of the district

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**Commented [KW5]:** Need to identify minimum qualifications of At-Large Members. I recommend  
-Hold an active CPA license, preferably in Nevada, or have at least 15 years of progressive financial management experience as evidenced on a resume, CV, or LinkedIn  
-Experience on governing boards, either as a committee or board member  
-Provide at least 3 professional references who reported to the person

**Deleted:** District Management shall be responsible for providing copies of all relevant policies to Committee members..085 ...¶

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**Deleted:** Appointing Trustees to serve successive years increases continuity and allows for knowledge retention.



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

Committee shall not be exercising managerial responsibilities that fall within the scope of the audit of the District.<sup>2</sup> This recommendation would generally preclude the Treasurer from joining the Committee. (NRS 318.085 item 4)

- At-Large Members shall be appointed by the Board of Trustees from applicants with appropriate accounting, auditing and financial reporting expertise with staggered 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.
  - For each subsequent appointment the member will serve a two-year term.

One 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 Committee members are limited to two 2-year terms, which may be extended with the Board of Trustees approval in the event there are no interested or qualified applicants to fill any future vacancies.

**1.0 Independent auditor reports directly to the Audit Committee**

The independent auditor will be engaged by and report directly to the Committee. The 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 (and related fee impact), beyond the scope of work contained in the engagement letter and the audit plan, to fulfill their responsibilities before any such work is undertaken.

**2.0 Scope of the Committee's Authority and Responsibilities**

<sup>2</sup> "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" Source: GFOA Best Practices, Audit Committee

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Commented [KW8]: Disagree, the Treasurer has no more managerial responsibility of district staff than any other member of the BoT.  
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Commented [KW9]: Why are At-Large member terms longer than Trustee appointed terms? I think they should be the same  
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Commented [KW10]: I think the Board should recommend who the Chair of the Committee should be for the AC to consider  
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Commented [KW11]: This statement is contradictory to the Trustee terms serving on the Committee.  
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**Accounting, Auditing, and Financial Reporting  
Audit Committee Charter  
Policy 15.1.0**

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

1. Financial reporting
2. Internal controls
3. The independent audit of the basic financial statements
4. The CAFR

To fulfill these responsibilities, the Committee shall:

- 2.1 Be independent, effectively communicate, and reinforce accountability.
- 2.2 Manage the external independent audit procurement process.
  - 2.2.1 Review and approve the Request For Proposal (RFP) for an independent auditor to be retained by the District. Such engagement should be for no more than five fiscal years in duration.
  - 2.2.2 Make recommendations on the scope of work including the identification of funds to be audited.
  - 2.2.3 Make recommendations to the Board of Trustees and take subsequent action to engage an independent auditor.
  - 2.2.4 Review and approve the engagement letter (i.e., contract) between the District and the independent auditor
  - 2.2.5 If deemed necessary, identify and recommend additional services to be performed.
  - 2.2.6 By March 31st of each calendar year, the Board of Trustees is to formally designate an external independent auditor and inform the Nevada Department of Taxation. (NRS 354.624 item 3)
  - 2.2.7 When appropriate replace the independent auditor and initiate the procurement process (2.2.1).
- 2.3 Facilitate the external audit process.
  - 2.3.1 Review and approve, in consultation with the independent auditor, the annual audit plan, the scope of audit activities and schedules by June of each year

**Commented [KW12]:** Not all the items below support this objective. See noted items.

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**Commented [KW13]:** This inherently could impact the independence of the auditor.  
Maybe we need to coordinate a conversation with Davis Farr?

**Commented [KW14]:** See comment above, independence issue?

**Commented [KW15]:** Need to define "When appropriate". This is too broad of a statement. Also, the AC does not have any authority in the procurement process.

**Commented [KW16]:** This section shows a lack of understanding of the roles of the auditor, AC, and management in the external audit process.  
Also, again, not all the items below support this objective

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

- 2.3.2 Provide an independent forum for auditors to report findings or difficulties encountered during the audit
- 2.3.3 Review with the District management and the independent auditor all major issues regarding:
  - 2.3.3.1 Accounting Principles
  - 2.3.3.2 CAFR presentation
  - 2.3.3.3 Any significant changes in the selection or application of accounting principles
  - 2.3.3.4 Significant judgments made in the preparation of the CAFR and basic financial statements
  - 2.3.3.5 The effect of regulatory initiatives
  - 2.3.3.6 Off-balance sheet structures
  - 2.3.3.7 Changes to audit plan of independent auditor as a result of any additional issues identified by the auditor
  - 2.3.3.8 Any restrictions on the scope of the auditor's activities or on access to requested information or managements responses
- 2.3.4 To review with District management and the independent auditor any material conflicts or disagreements between District management and the independent auditor, whether or not resolved, regarding financial reporting, accounting practices or policies or other matters, that, individually or in the aggregate, could be significant to the District's financial statements or the independent auditors' report, and attempt to help resolve any conflicts or disagreements regarding financial reporting.
- 2.3.5 According to the approved work plan, conduct periodic meetings with the external auditor to review progress, issues identified, concerns and the audit timeline
- 2.3.6 Review and approve the Management Representation letter by the District's management prior to submittal of the letter to the independent auditor
- 2.3.7 The Committee shall submit a written report to the District's Board of Trustees in conjunction with the presentation of the CAFR to the Board of Trustees by the end of December.

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Commented [KW17]: This shouldn't be the responsibility of the Committee. Management should bring these issues to the auditor and AC.

Commented [KW18]: This shouldn't be the responsibility of the Committee. It is the auditor's requirement to bring this to the attention of the Committee as part of their required communications, which is standard auditing practice, not Audit Committee practice

Commented [KW19R18]: Recommend revising to "Review auditor's required communications."

Commented [KW20]: This is Management's responsibility, not the Committee

Commented [KW21R20]: Recommend revising to "Review Management's Representation Letter."

2.4 Post External Audit Follow up



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

- 2.4.1 Follow-up on any corrective actions identified by the external auditor, if any
- 2.4.2 Annually evaluate the work of the independent auditor and lead audit partner based on compliance with work plan and engagement letter
- 2.4.3 At least annually, obtain and review a report by the independent auditor that describes:
  - 2.4.3.1 the independent auditor's internal control procedures
  - 2.4.3.2 any material issues raised by the most recent peer review of the independent auditor
  - 2.4.3.3 any inquiry or investigation by governmental or professional authorities, within the preceding five years regarding any audit performed and any steps taken to deal with any such issues.
- 2.5 The Committee may identify a need to engage an external resource to address a specific area of concern.
  - 2.5.1 The Committee shall seek approval from Board of Trustees to obtain appropriate resources.
  - 2.5.2 The Committee shall agree the Scope of Work
  - 2.5.3 The Committee is responsible for engaging the resource to perform the scope of work.
  - 2.5.4 The external resource shall report findings to the Committee.
  - 2.5.5 The Committee will provide findings to the Board of Trustees and recommend implementation of the findings, if any.
  - 2.5.6 Management will have the responsibility for implementation of identified changes or enhancements.
- 2.6 The Committee shall review and provide oversight of the internal controls ensuring management establishes, implements and reviews internal controls on a regular basis for functionality and effectiveness.
  - 2.6.1 Management will provide an annual schedule for the review of District Financial Practices (internal control) documents. These documents will be provided to the Audit Committee for their review and oversight.

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**Commented [KW22]:** I don't understand why this is included. This should be part of the RFP process to evaluate the professional credentials of the firm we are hiring

**Commented [KW23]:** Need to define parameters for this. Again, the AC does not have the authority to procure services

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

2.7 Annually review the District's Code of Conduct that promotes honest and ethical conduct; full, fair, accurate, timely disclosures in periodic reports including the CAFR; and compliance with applicable policies and practices to ensure it is adequate and up-to-date.

Deleted:

2.8 To annually review and refine as necessary the whistleblower 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.

Commented [KW24]: Whistleblower policy should be the responsibility of the BoT, not the AC.

**NOTE: This is predicated upon approval of the current whistleblower policy and may require to be updated dependent upon BoT changes to the whistleblower policy**

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2.9 Reports to Board of Trustees.

2.9.1 The Committee shall submit an annual report to the Board of Trustees assessing its fulfillment of its duties and responsibilities as described in the Charter

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**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. Any member missing two consecutive meetings without due cause (i.e., illness) will be reviewed for continued membership on the Committee by the Chairs of the Committee and Board.

Commented [KW25]: Why? The district does not have quarterly reporting requirements.



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

- 3.3 The committee Chair shall establish the agenda for meetings and provide all briefing materials to members and the public in advance.
- 3.4 The District's management is to provide to the Committee at least 7 calendar days prior to a Committee's public meeting, copies of all materials which are to be presented by management
- 3.5 The Committee shall 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.
- 3.6 The Committee shall review all past correspondence which contains outstanding action items. Ensure responses and/or corrective action is taken in a timely manner.
- 3.7 The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary.
- 3.8 An annual meeting is to be held with the independent auditor, the General Manager, the Director of Finance, legal counsel and anyone else as desired by the Committee to review the audited annual basic financial statements including the Comprehensive Annual Financial Report (CAFR) and the auditor's material written communications with the District

**Commented [KW26]:** Why include in policy as this is dictated by NRS?

**Commented [KW27R26]:** Suggest referencing relevant NRS.

**Commented [KW28]:** Need to define what type of correspondence the BoT delegates to the AC to review. Not all correspondence should fall under the purview of the AC.

**Deleted:**

**4.0 Annual Financial Risk Assessment and Risk Management.**

The Committee shall review and discuss with District management and the independent auditor the District's major financial risk exposures, and the steps management has taken to monitor and control those exposures. It is the Board's responsibility to ensure the District has adequate controls and plans for risk mitigation for areas beyond finance.

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# Attachment

Update of  
Recommended  
Revisions from Audit  
Committee Chair  
Tulloch (with  
attachment)

## MEMORANDUM

**TO:** Board of Trustees

**FROM:** Ray Tulloch  
Audit Committee Chair

**SUBJECT:** Update to previous review, discuss and possibly adopt recommendations for changes to Board Policy 15.1.0 as recommended by the Audit Committee

**DATE:** September 15, 2021

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### **I. UPDATE**

As indicated to the Board at the September 2, 2021 Board meeting, I had inadvertently deleted a couple of sections around internal controls in the Audit Committee proposed revisions to policy 15.1.0. I have now reinstated these sections (2.6.2 – 2.6.4) and highlighted them in the attached document. I have also removed acronyms for clarity.

Following discussions with District General Manager Winqest and Director of Finance Navazio, I have added some clarifications in 2.3.3 and in 2.4.1 to reduce any concerns around potential scope creep; these changes are also highlighted.

Finally, also from discussions with District General Manager Winqest and Director of Finance Navazio, I have deleted Section 2.4.3 which required annual reporting from the Independent Auditor. As was also pointed out by some Board members, that language was more appropriate to the procurement process rather than an annual requirement.

I value the feedback for the Audit Committee from both the Board and from Staff which has been helpful. There were also several other potential changes discussed at the September 2, 2021 meeting. All changes discussed above have been highlighted. As the Board discussions are still ongoing I have deferred making any further changes at this stage other than those identified above which help with clarification and address some key concerns raised by staff.

I look forward to further discussions and a resolution by the Board.



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**PROPOSED REVISIONS FOR DISCUSSION**

The Incline Village General Improvement District is committed to be proactive, informed, and to provide the highest level of financial accountability and transparency to its parcel owners and other stakeholders (i.e., the State of Nevada).

The Government Finance Officers Association (GFOA) encourages the effective use of an audit committee in the public sector and considers such a committee an integral element of public accountability and governance. An Audit Committee plays a key role with respect to overseeing the integrity of the District's annual financial statements (the "CAFR") by ensuring those responsible for financial management (Management, and the Board of Trustees) meet their responsibilities for maintaining an effective system of internal controls over financial reporting.

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 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<sup>1</sup>.

An audit committee should be formally established by the Board of Trustees, be adequately funded, and be subject to a formally approved Audit Committee Charter.

**POLICY:** The Audit Committee (the "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 system of internal controls including the internal audit plans and reports, and the independent auditor's reports within the CAFR.

The Committee shall have open communication with and maintain strong working relationships with the IVGID Board of Trustees, the General Manager, Director of Finance, and the independent auditor.

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<sup>1</sup> Source: GFOA Best Practices, Audit Committee





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Policy 15.1.0**

This Committee shall review the Charter annually with any recommended changes submitted to the Board of Trustees for consideration and approval.

**ORGANIZATION:** The Committee shall consist of five (5) voting members. This includes two Board members appointed annually by the Trustees and three members appointed by the Trustees to serve as qualified At-Large Members. Any recommendations for expanding the number of voting members will be approved by the Committee and submitted to the Board of Trustees for consideration. The Committee may retain financial or other appropriate advisors to attend meetings, provide guidance and training, as needed.

Members of the Committee should have or shall obtain an understanding of accounting, auditing, financial reporting, and internal controls to be able, with the assistance of an advisor if needed, to deliberate on issues for which the Committee is responsible. Therefore, the Board of Trustees may need to budget for periodic training of the Committee members and an outside advisor to assist the Committee with the independent conduct of its work.. Any advisor so engaged should possess the following qualifications:

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

At-Large 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.

At-Large Committee members shall be expected to comply with all District policies that apply to volunteers. District Management shall be responsible for providing copies of all relevant policies to Committee members..085

- Annually, the Board of Trustees will appoint two Trustees to be Committee members. Appointing Trustees to serve successive years increases continuity and allows for knowledge retention. In the event a Trustee is



**Accounting, Auditing, and Financial Reporting  
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removed or resigns, the Board of Trustees shall appoint a new member to the Committee. In accordance with GFOA recommendations, Trustees considered for appointment to the Committee shall not be exercising managerial responsibilities that fall within the scope of the audit of the District.<sup>2</sup> This recommendation would generally preclude the Treasurer from joining the Committee. (NRS318.085 item 4)

- At-Large Members shall be appointed by the Board of Trustees from applicants with appropriate accounting, auditing and financial reporting expertise with staggered 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.
  - For each subsequent appointment the member will serve a two-year term.

One 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 Committee members are limited to two 2-year terms, which may be extended in the event there are no interested or qualified applicants to fill any future vacancies.

**1.0 Independent auditor reports directly to the Audit Committee**

The independent auditor will be engaged by and report directly to the Committee. The 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 (and related fee impact), beyond the scope of work contained in the engagement letter and the audit plan, to fulfill their responsibilities before any such work is undertaken.

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<sup>2</sup> "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" Source: GFOA Best Practices, Audit Committee



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

### **2.0 Scope of the Committee's Authority and Responsibilities**

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

1. Financial reporting
2. Internal controls
3. The independent audit of the financial statements and Comprehensive Annual Financial Report

To fulfill these responsibilities, the Committee shall:

- 2.1 Be independent, effectively communicate, and reinforce accountability.
- 2.2 Manage the external independent audit procurement process.
  - 2.2.1 Review and approve the Request For Proposal (RFP) for an independent auditor to be retained by the District. Such engagement should be for no more than five fiscal years in duration.
  - 2.2.2 Make recommendations on the scope of work including the identification of funds to be audited.
  - 2.2.3 Make recommendations to the Board of Trustees and take subsequent action to engage an independent auditor.
  - 2.2.4 Review and approve the engagement letter (i.e., contract) between the District and the independent auditor
  - 2.2.5 If deemed necessary, identify and recommend additional services to be performed.
  - 2.2.6 By March 31st of each calendar year, the Board of Trustees is to formally designate an external independent auditor and inform the Nevada Department of Taxation. (NRS 354.624 item 3)
  - 2.2.7 When appropriate replace the independent auditor and initiate the procurement process (2.2.1).
- 2.3 Facilitate the external audit process.



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- 2.3.1 Review and approve, in consultation with the independent auditor, the annual audit plan, the scope of audit activities and schedules by June of each year
- 2.3.2 Provide an independent forum for auditors to report findings or difficulties encountered during the audit
- 2.3.3 Review with the District management and the independent auditor all major issues identified by the independent auditor regarding:
  - 2.3.3.1 Accounting Principles
  - 2.3.3.2 Comprehensive Annual Financial Report presentation
  - 2.3.3.3 Any significant changes in the selection or application of accounting principles
  - 2.3.3.4 Significant judgments made in the preparation of the Comprehensive Annual Financial Report and financial statements
  - 2.3.3.5 The effect of regulatory initiatives
  - 2.3.3.6 Off-balance sheet structures
  - 2.3.3.7 Changes to audit plan of independent auditor as a result of any additional issues identified by the auditor
  - 2.3.3.8 Any restrictions on the scope of the auditor's activities or on access to requested information or managements responses
- 2.3.4 To review with District management and the independent auditor any material conflicts or disagreements between District management and the independent auditor, whether or not resolved, regarding financial reporting, accounting practices or policies or other matters, that, individually or in the aggregate, could be significant to the District's financial statements or the independent auditors' report, and attempt to help resolve any conflicts or disagreements regarding financial reporting.
- 2.3.5 According to the approved work plan, conduct periodic meetings with the external auditor to review progress, issues identified, concerns and the audit timeline



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- 2.3.6 Review and approve the Management Representation letter by the District's management prior to submittal of the letter to the independent auditor
- 2.3.7 The Committee shall submit a written report to the District's Board of Trustees in conjunction with the presentation of the **Comprehensive Annual Financial Report** to the Board of Trustees by the end of December.
  
- 2.4 Post External Audit Follow up
  - ~~2.4.1 Follow-up on any corrective action identified by the Independent Auditor~~
  - 2.4.2 Annually evaluate the work of the independent auditor and lead audit partner based on compliance with work plan and engagement letter
  - ~~2.4.3 At least annually, obtain and review a report by the independent auditor that describes:
    - ~~2.4.3.1 the independent auditor's internal control procedures~~
    - ~~2.4.3.2 any material issues raised by the most recent peer review of the independent auditor~~
    - ~~2.4.3.3 any inquiry or investigation by governmental or professional authorities, within the preceding five years regarding any audit performed and any steps taken to deal with any such issues.~~~~
  
- 2.5 The Committee may identify a need to engage an external resource to address a specific area of concern.
  - 2.5.1 The Committee shall seek approval from Board of Trustees to obtain appropriate resources.
  - 2.5.2 The Committee shall agree the Scope of Work
  - 2.5.3 The Committee is responsible for engaging the resource to perform the scope of work.
  - 2.5.4 The external resource shall report findings to the Committee.
  - 2.5.5 The Committee will provide findings to the Board of Trustees and recommend implementation of the findings, if any.
  - 2.5.6 Management will have the responsibility for implementation of identified changes or enhancements.



**Accounting, Auditing, and Financial Reporting  
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- 2.6 The Committee shall review and provide oversight of framework of the internal controls ensuring management establishes, implements and reviews internal controls on a regular basis for functionality and effectiveness.
- 2.6.1 Management will provide an annual schedule for the review of District Financial Practices (internal control) documents. These documents will be provided to the Audit Committee for their review and oversight.
- 2.6.2 Review management's annual assessment of their internal controls for prior year's audit plan.
- 2.6.3 Review the annual internal control audit plan(s).
- 2.6.4 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.
- 2.7 Annually review the District's Code of Conduct that promotes honest and ethical conduct; full, fair, accurate, timely disclosures in periodic reports including the CAFR; and compliance with applicable policies and practices to ensure it is adequate and up-to-date.
- 2.8 To annually review and refine as necessary the whistleblower 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.

***NOTE: This is predicated upon approval of the current whistleblower policy and may require to be updated dependent upon BoT changes to the whistleblower policy***

- 2.9 Reports to Board of Trustees.



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Policy 15.1.0**

2.9.1 The Committee shall submit an annual report to the Board of Trustees assessing its fulfillment of its duties and responsibilities as described in the Charter

**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. Any member missing two consecutive meetings without due cause (i.e., illness) will be reviewed for continued membership on the Committee by the Chairs of the Committee and Board.
- 3.3 The committee Chair shall establish the agenda for meetings and provide all briefing materials to members and the public in advance.
- 3.4 The District's management is to provide to the Committee at least 5 calendar days prior to a Committee's public meeting, copies of all materials which are to be presented by management
- 3.5 The Committee shall 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.
- 3.6 The Committee shall review all past correspondence which contains outstanding action items. Ensure responses and/or corrective action is taken in a timely manner.
- 3.7 The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary.
- 3.8 An annual meeting is to be held with the independent auditor, the General Manager, the Director of Finance, legal counsel and anyone



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else as desired by the Committee to review the audited annual basic financial statements including the Comprehensive Annual Financial Report (CAFR) and the auditor's material written communications with the District

**4.0 Annual Financial Risk Assessment and Risk Management.**

The Committee shall review and discuss with District management and the independent auditor the District's major financial risk exposures, and the steps management has taken to monitor and control those exposures. It is the Board's responsibility to ensure the District has adequate controls and plans for risk mitigation for areas beyond finance.



# Attachment

Board Memo –  
September 2, 2021  
agenda: Board Policy  
15.1.0 (with  
applicable  
attachments

## M E M O R A N D U M

**TO:** Board of Trustees

**THROUGH:** Tim Callicrate  
Board Chairman

**FROM:** Indra Winquest  
District General Manager

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

**DATE:** September 2, 2021

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### **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 29<sup>th</sup>, as well as appearing on the agenda for Audit Committee meetings held on July 13<sup>th</sup>, August 10<sup>th</sup> and August 17<sup>th</sup>. 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 13<sup>th</sup> the Audit Committee has also forwarded to the Board of Trustees a draft Whistleblower Policy for Board consideration. The Whistleblower Policy, which was agendized 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><b>Preamble</b></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><b>Policy Statement</b></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><b>Organization</b></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"> <li>1) Governing body as a whole (meeting as Audit Committee)</li> <li>2) Board sub-committee (2 Trustees)</li> <li>3) Trustees PLUS one or more members of the public</li> <li>4) Independent public advisory body.</li> </ol> <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><b>Policy Section</b></p> <p><b>1.0 Independent Auditor Reports Directly to the Audit Committee</b> Independent Auditor reports directly to the Audit Committee</p> <p>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><b>2.0 Scope of Audit Committee's authority and responsibilities</b></p> <p>It is the responsibility of the Audit Committee to provide independent review and oversight of:</p> <ol style="list-style-type: none"> <li>1) Financial Reporting</li> <li>2) Internal Controls</li> <li>3) The independent audit of financial statements</li> </ol>	
<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 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	Empahsis on external INDEPENDENT audit process.  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 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.	Currently, quarterly financial reports are presented to Board of Trustees. No formal review by AC Board MAY refer review of changes to Board Policies
2.6 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 presnted to the Board (to date).
<b>3.0 Meetings</b>	
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>



## 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,<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup>

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

- The governing body<sup>4</sup> 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 responsible<sup>5</sup> 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.<sup>6</sup> 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;<sup>7</sup>

- Ideally, all members of the audit committee should possess or obtain a basic understanding of governmental financial reporting and auditing.<sup>8</sup> 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;<sup>9</sup>
- 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;<sup>10</sup>
- 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;<sup>11</sup>
- 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.<sup>12</sup> 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 controls<sup>13</sup>;

- 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 responsibilities<sup>14</sup>; 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,<sup>15</sup> and privately among committee members,<sup>16</sup> 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.

**Board approval date:** Friday, October 17, 2008



## 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.*

**Board approval date:** Friday, January 22, 2016





# Chapter 2: Audit Committee Charter Matrix from Trustee Schmitz

## Chapter 2: Audit Committee Charter Matrix

**Overview:** Preparing an audit committee charter is a best practice for government entities as it creates a clear awareness of the committee's key responsibilities. However, the charter is often prepared and forgotten except for its annual review. This matrix is designed to help audit committees make the charter a living document and use it to manage the agenda. This tool is meant as a sample. Users of the tool should put their own charters in the first column and use this example as a guide for defining the steps to accomplish each objective, the associated performance measure, and the scheduling. The audit committee charter presented in the first column of the following matrix is just an example of a best practice charter. It includes the requirements of the Sarbanes-Oxley Act of 2002 (the Act) and stock exchange requirements, which are not government requirements, but may want to be considered as a best practice.

### Purpose

An entity's governing body appoints the audit committee to, among other things:

- a. oversee the accounting and financial reporting process and the audit of the entity's financial statements by an independent auditor, and
- b. monitor compliance with the conflict of interest policy and the whistleblower policy adopted by the governing body. Each member shall be free of any relationship that, in the opinion of the governing body, would interfere with his or her individual exercise of independent judgment.

### Reporting

The audit committee reports directly to the governing body.

## Committee Membership

The audit committee shall consist of no fewer than three members, each of whom should be independent, as hereafter defined. One member shall be designated as a financial expert.<sup>1</sup> The members of the audit committee shall be appointed annually by the governing body. Audit committee members may be replaced by the governing body at any time. The governing body shall designate the chairperson of the audit committee.

## Committee Authority and Responsibilities

The audit committee shall meet as often as it determines necessary or appropriate to fulfill its responsibilities, but no fewer than twice annually—once to review the audit plan and once to review the audited financials, and related documents, and to review the audit engagement, special investigations, financial irregularities and internal control failures. The chairperson shall preside at each meeting and, in the absence of the chairperson, one of the other members of the audit committee shall be designated as the acting chair of the meeting. The chairperson (or acting chair) may direct appropriate members of management and staff to prepare draft agendas and related background information for each audit committee meeting. To the extent practical, any background materials, together with the agenda for the meeting, should be distributed to the audit committee members in advance of the meeting. All meetings of the audit committee shall be held pursuant to the laws or rules of the government entity with regard to notice and waiver thereof, and written minutes of each meeting, in the form approved by the audit committee, shall be duly filed in the entity's records. The audit committee shall make regular reports to the governing body. The audit committee may form and delegate authority to subcommittees consisting of one or more members when appropriate.

In performing its functions, the audit committee shall undertake those tasks and responsibilities that, in its judgment, would contribute most effectively to and implement the purposes of the audit committee. In addition to the general tasks and responsibilities noted above, the following are the specific functions of the audit committee:

- The audit committee shall annually retain or renew the appointment of an independent auditor to conduct the audit, and, upon completion, must review the results of the audit and any related management letter.

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<sup>1</sup> A financial expert is a person who has the following attributes: (a) an understanding of generally accepted accounting principles and financial statements; (b) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves; (c) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the registrant's financial statements, or experience actively supervising one or more persons engaged in such activities; (d) an understanding of internal controls and procedures for financial reporting; and (e) an understanding of audit committee functions.

- Review with the independent auditor the scope and planning of the audit prior to its commencement.
- Upon completion of the audit, review and discuss the following with the independent auditor:
  - Any material risks and weaknesses in internal controls identified by the independent auditor
  - Any restrictions placed on the independent auditor's scope of the activities or access to requested information
  - Any significant disagreements between the independent auditor and management
  - The adequacy of the entity's interim and annual accounting and financial reporting process
  - Any recommendations made
- Assess the performance and independence of the independent auditor on an annual basis.
- Solicit observations on staff skills, qualifications and performance related to audited functions.
- Report to the governing body on the committee's activities, and recommend the results of audit findings for approval.
- Oversee corrective actions implemented to address issues identified in the required communication and management letter.

### *Additional Responsibilities*

- Review audit plans for the upcoming year and discuss with external audit firm and internal audit.
- Monitor compliance with the conflict of interest policy and the whistleblower policy adopted by the entire governing body, as such policies may be modified from time to time and which reflect any changes made in state law from time to time. Act as external point of contact for any whistleblowing issues, and if necessary, initiate special investigations of policies, procedures and practices.
- Conduct executive sessions at least annually with the individual conducting the internal audit function (generally the CAE) and management.
- Review presentation of financial information in the annual report for consistency with the audited financial statements before the annual report is printed.
- Review with management and internal audit the internal control process, and risk management and mitigation process.

- Periodically review audit-related policies.

### *Definitions*

**Affiliate.** An affiliate of the government entity is a person or entity that is directly or indirectly through one or more intermediaries, controlled by, in control of, or under common control of the government entity.

**Financial Interest.** A person has a financial interest if such person would receive, directly or indirectly, an economic benefit from any transaction, agreement, compensation agreement involving the entity including:

- Having an ownership or investment interest in any entity with which the government entity has a transaction or arrangement.
- Having a compensation arrangement with the entity or with any organization or individual with which the entity has a transaction or arrangement, including direct and indirect remuneration as well as gifts or favors that are substantial in nature (inexpensive gifts or services that have a retail value of no more than \$10 individually, and no more than \$50 in the aggregate annually are not considered “substantial”) or a potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the entity is negotiating a transaction or arrangement.
- Accepting payments, loans, services or gifts from anyone doing or seeking to do business with the entity.
- Is an officer or director of any organization doing or seeking to do business with the entity.

**Independent Governing Body Member.** A member of the governing body that is not, and has not within the last three years been, (a) an employee of the entity or any affiliate, and does not have a relative who is or has been within the last three years a key employee of the entity or any affiliate; (b) an individual who has received or has a relative who received (more than \$10,000 in direct compensation from the entity or any affiliate within any of the last three fiscal years (other than reimbursement of reasonable expenses or reasonable compensation for serving as a director); or (c) an employee of, or an individual who has a substantial financial interest in, any entity that has made payments to or received payments from the entity or an affiliate for property or services (which, in any of the last three fiscal years, exceeds the lesser of \$25,000 or 2 percent of such entity's consolidated gross revenues) and does not have a relative who is an officer of or has a substantial financial interest in any such entity.

**Key Employee.** Any person who is, or has within the last five years been, in a position to exercise substantial influence over the affairs of the entity including, without limitation, any employee with responsibilities similar to those of any person designated as president, chief executive officer, chief operating officer, treasurer, or chief financial officer.

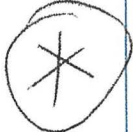
**Government Audit Committee Charter Matrix for the Year Ending: \_\_\_\_\_**

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>1. Each member of the audit committee shall be appointed by the governing body and shall be independent in order to serve on this committee. (Note that this is a best practice and not a requirement for governments.)</p>	<p>Test for independence. Although a best practice, the independence requirement does not apply to governments.</p>	<p>Indicate in the audit committee minutes whenever a new member is appointed; acknowledge that independence has been verified.</p>	<p>Affirm annually and whenever a change in status by any audit committee member occurs.</p>	
<p>2. At least one member of the audit committee shall be designated as a <i>financial expert</i>.  (See chapter 3, “Audit Committee Financial Expert Considerations and Decision Tree,” in this toolkit.)</p>	<p>Ascertain that at least one member of the audit committee meets the requirements of a financial expert. Although a best practice, the independence requirement does not apply to governments.</p>	<p>Indicate in audit committee meeting minutes which member of the audit committee is designated as the financial expert.</p>	<p>Affirm annually, unless there is a change in status.</p>	
<p>3. Review the audit committee’s charter annually, reassess the adequacy of this charter, and recommend any proposed changes to the governing body. Consider</p>	<p>Review the charter each year. Assess the appropriateness of each point in the charter in light of the previous years’</p>	<p>Report to the governing body on the appropriateness of the audit committee charter</p>	<p>Review annually, unless changes are needed during the course of the year.</p>	

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>changes that are necessary as a result of new laws or regulations.</p>	<p>experience. Assess the completeness of the charter in light of new best practices and new legal or regulatory requirements.</p>	<p>and any revisions recommended.</p>		
<p>4. The audit committee shall meet as deemed appropriate, but at least twice per year, as well as each time the government entity proposes to issue a press release with its quarterly or annual earnings information. These meetings may be combined with regularly scheduled meetings, or 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.</p>	<p>In-person meetings should be held at least once each quarter. All members are expected to attend each meeting in person, or via telephone conference or videoconference.</p> <p>Telephone conference meetings may be held more frequently.</p> <p>The agendas for meetings should be prepared and provided to members in advance, along with appropriate briefing materials.</p>	<p>Prepare minutes that document decisions made and action steps following meetings and review for approval.</p> <p>Meeting minutes should be filed with the governing body.</p>	<p>Minutes should be distributed as soon as possible but no later than prior to the next meeting.</p>	



Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>5. Conduct executive sessions with the independent auditors, government entity head, chief audit executive (CAE), general counsel, chief information officer (CIO) and anyone else as desired by the committee.</p>	<p>Establish these sessions in conjunction with quarterly meetings or as necessary.</p> <p>(See chapter 12, "Guidelines and Questions for Conducting an Audit Committee Executive Session," in this toolkit.)</p>	<p>Develop action steps to be taken if appropriate.</p>	<p>Review quarterly and as necessary.</p>	
<p>6. The audit committee shall be authorized to hire outside counsel or other consultants as necessary. This may take place any time during the year.</p> <p>(See chapter 7, "Engaging Independent Counsel and Other Advisers," in this toolkit.)</p>	<p>Requests for proposals (RFPs) should be used, if time permits.</p>	<p>Report submitted by outside counsel or consultant.</p>	<p>Review as needed.</p>	
<p>7. Review and concur in the appointment, replacement, reassignment, or dismissal of the CAE.</p> <p><i>Chief audit exec.</i></p>	<p>Meet in executive session at each meeting with the CAE to allow assessment and feedback.</p> <p>Hold special meetings as may be necessary to</p>	<p>Report to the full governing body on the performance of the CAE, including the effectiveness of the internal audit function.</p>	<p>Conduct ongoing reviews, as changes can be made at any time during the year.</p>	



Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>(See chapter 6, “Guidelines for Hiring the Chief Audit Executive (CAE),” in this toolkit.)</p>	<p>address appointment, reassignment, or dismissal of CAE.</p> <p>The audit committee chair should be available if any unforeseen issues arise between meetings relating to the CAE.</p> <p>Meet at least once annually with other members of executive management and the independent auditors to discuss the performance of the CAE.</p> <p>Discuss job satisfaction and other employment issues with the CAE.</p>			
<p>8. Appoint the independent auditors to be engaged by the government entity, establish the audit fees of the independent auditors, and pre-approve any non-audit services provided by the independent</p>	<p>At least once each year, discuss each of these items with management, the CAE, and the governing body.</p> <p>Review total audit fee in relation to any non-audit</p>	<p>Report on and recommend the performance and fees paid to the independent auditors. Review the scope of <i>all</i> services provided by the</p>	<p>Review soon after year-end, so that the recommendation for the appointment of the independent auditor can be met for the following year.</p>	

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>auditors before the services are rendered.</p> <p>Review and evaluate the performance of the independent auditors and review with the full governing body any proposed discharge of the independent auditors.</p> <p>(See the tools and guidance in chapter 4, "Sample Request for Proposal Letter for CPA Services (Government)," in this toolkit.)</p>	<p>services being provided by the independent auditor.</p> <p>Discuss the audit committee's review of the independent auditors with the governing body.</p> <p>Ascertain that the independent auditors do not perform any non-audit service that is prohibited by generally accepted auditing standards or <i>Generally Accepted Government Auditing Standards</i> (the "Yellow Book"). Consider establishing pre-defined acceptable services the independent auditor may engage in based upon regulations.</p>	<p>independent audit firm throughout the entity.</p> <p style="text-align: center;"><u>Paul</u></p>		
<p>9. Ascertain that the lead (or concurring) independent audit partner does not serve in that</p>	<p>Establish when the five-year limit will be reached for the current lead</p>	<p>Document these discussions in audit</p>	<p>Review annually with the independent auditors.</p>	

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>capacity for more than five of the government entity’s fiscal years (best practice). In addition, ascertain that any partner other than the lead or concurring partner does not serve more than seven years at the partner level on the government entity’s audit committee.</p>	<p>independent audit partner. At least a year prior to that time, discuss transition plans for the new lead independent audit partner.</p> <p>Although a best practice, the partner rotation requirements do not apply to government entities.</p>	<p>committee meeting minutes.</p>		
<p>10. Review with management the policies and procedures with respect to officers’ expense accounts and perquisites, including their use of government assets, and consider the results of any review of these areas by the internal auditor or the independent auditors.</p>	<p>Review policies and procedures annually. Discuss with the CAE the need for testing by either the internal auditors, independent auditors, or other parties.</p>	<p>Report issues, if any, to the governing body.</p>	<p>Review policies and procedures at a regularly scheduled meeting, and discuss audit plan.</p> <p>Review any significant findings as they arise.</p>	
<p>11. Consider with management the rationale for employing audit firms and other outside specialists</p>	<p>Establish a policy for the audit committee to pre-approve engaging auditors</p>	<p>Document auditor selection criteria. Also, use a decision matrix to</p>	<p>Continually review the policy and the government entity’s compliance with it.</p>	

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>other than the principal independent auditors.</p>	<p>other than the principal independent auditors.</p> <p>Use RFPs for engaging auditors or other professionals for non-audit or other services that the independent auditor cannot perform.</p> <p>Review compliance with the policy by management.</p> <p>(See chapter 4, “Sample Request for Proposal Letter for CPA Services and Qualifications (Government Entity),” in this toolkit.)</p>	<p>evaluate and document the third party selection.</p> <p>Prepare an engagement letter for each engagement.</p>	<p>Other auditors may need to be hired at any point during the year.</p>	
<p>12. Make inquiries to management, the CAE, and the independent auditors about significant risks or exposures facing the government entity; assess the steps management has taken or proposes to take to minimize such risks to the entity; and</p>	<p>Create a portfolio that documents the material risks that the entity faces in developing an enterprise risk management strategy. Update as events occur. Review with management and the CAE quarterly or</p>	<p>Submit a risk report including mitigation strategies, quantifiable risks, and insurance to cover risks such as property loss or fraud.</p>	<p>Review at least once each year, and more frequently if necessary.</p>	

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>periodically review compliance with such steps.</p> <p>(See the tools and guidance included in chapter 8, “Internal Control: Guidelines and Tool for the Audit Committee,” chapter 9, “Fraud and the Responsibilities of the Audit Committee: An Overview,” and chapter 19, “Enterprise Risk Management: A Tool for Strategic Oversight,” in this toolkit.)</p>	<p>sooner if necessary, to make sure it is up to date.</p>			
<p>13. Review the audit scope and plan of the internal auditors and the independent auditors with the independent auditor, the controller of the government entity, and the CAE. Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.</p>	<p>Meet with the independent audit partner, the controller, and CAE to discuss the scope of the previous year’s audit and lessons learned. Later, discuss planned scope for audit of current year.</p>	<p>Document the meeting in the audit committee meeting minutes.</p>	<p>At the second quarter meeting each year, review the scope of the previous year’s audit, and the inter-relationship between the internal and independent auditors with respect to the scope of the independent auditors’ work.</p>	

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
			No later than the third quarter meeting each year, review the plans for the audit of the current year.	
<p>14. Review with management and the CAE</p> <ul style="list-style-type: none"> <li>• significant findings on internal audits during the year, and management’s responses thereto.</li> <li>• any difficulties the internal audit team encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.</li> <li>• any changes required in the scope of their internal audit.</li> <li>• the internal auditing department budget and staffing.</li> <li>• the internal auditing department charter.</li> </ul>	<p>Review and discuss the findings for each audit completed since the prior meeting, and management’s response to the report.</p> <p>Discuss internal audit department budget and staffing with CAE.</p> <p>Discuss internal audit’s compliance with the Institute of Internal Auditors’ (IIA) standards, including the requirement for a peer review once every five years.</p>			

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<ul style="list-style-type: none"> <li>internal auditing’s compliance with IIA’s Standards for the Professional Practice of Internal Auditing (standards).</li> </ul>				
<p>15. Inquire of the government entity head, CFO, independent auditor, CIO, general counsel, and anyone else desired by the audit committee, regarding the <i>financial condition</i> of the government entity from a subjective as well as an objective standpoint.</p>	<p>Discuss <i>financial condition</i> with the government entity head, CFO, CIO, independent auditor, general counsel, and other executives. Identify any issues addressed, and their resolution.</p>	<p>Include in agenda for executive sessions. (See chapter 12, “Guidelines and Questions for Conducting an Audit Committee Executive Session,” in this toolkit.)</p>	<p>Review, as necessary, but at least annually.</p>	
<p>16. Review with the independent accountants and the CAE</p> <ul style="list-style-type: none"> <li>the adequacy of the government entity’s internal controls including computerized information system controls and security.</li> <li>any related significant findings and recommendations of the independent auditors and</li> </ul>	<p>Review key internal controls with the CAE, and understand how these controls will be tested during the year.</p> <p>Review these plans with the independent auditor to understand their scope with respect to key controls.</p>	<p>Report to the governing body on issues relating to internal controls, with emphasis on management’s ability to override and related monitoring and testing.</p>	<p>Submit a comprehensive report to the governing body at the second quarter meeting each year.</p> <p>Update on anything new, or any changes to the internal control system, at every meeting.</p>	



Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>internal audit services together with management's responses thereto.</p> <p>(See the tools and guidance included in chapter 8, "Internal Control: Guidelines and Tool for the Audit Committee," chapter 9, "Fraud and the Responsibilities of the Audit Committee: An Overview," and chapter 14, "Responding to the Identification of a Material Weakness in Internal Control: A Checklist for the Audit Committee," in this toolkit.)</p>	<p>Review with the CAE the plans for audits of other elements of the control environment.</p> <p>Determine that all internal control weaknesses are quantified, reviewed, and addressed.</p>			
<p>17. Review with management and the independent auditor the effect of any new regulatory and accounting initiatives.</p>	<p>Independently, through professional reading and CPE, keep up to date on new developments related to the industry, and the environment in which the government entity operates, including any regulatory or statutory</p>	<p>Record discussion and any action steps in audit committee meeting minutes.</p>	<p>Review as necessary.</p>	

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
	<p>requirements to which it may be subject.</p> <p>Discuss with management and the independent auditors in meetings.</p>			
<p>18. Review with each public accounting firm that performs an audit</p> <ul style="list-style-type: none"> <li>• all critical accounting policies and practices used by the government entity.</li> <li>• all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the government entity, the ramifications of each alternative, and the treatment preferred by the organization.</li> </ul> <p>(See the tool in chapter 11, “Issues Report from Management,” in this toolkit.)</p>	<p>Discuss each matter and related matters that may come to the attention of the audit committee or the independent auditors through this process.</p> <p>Create an action plan and follow-up plan as necessary.</p>	<p>Submit reports and documentation of discussions and resolution of disagreements.</p>	<p>Review, at least annually, and in conjunction with the year-end audit.</p>	

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>19. Review all material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.</p>	<p>Discuss each item with the independent auditors and management, including the CAE, and conclude on the appropriateness of the proposed resolution.</p>	<p>Submit reports and documentation of discussions, resolution of issues, and the action plan for any items requiring follow up and monitoring.</p>	<p>Review at the completion of the independent audit.</p>	
<p>20. Review with management and the independent auditors</p> <ul style="list-style-type: none"> <li>• the government entity’s annual financial statements and related footnotes.</li> <li>• the independent auditors’ audit of the financial statements and their report thereon.</li> <li>• the independent auditors’ judgments about the quality, not just the acceptability, of the entity’s accounting principles as applied in its financial reporting.</li> </ul>	<p>Discuss each matter, and others that may come to the attention of the audit committee through this process, with management (including the CAE) and the independent auditors.</p> <p>Review with management the course of action to be taken for any action requiring follow up.</p> <p>Monitor any follow-up action that requires continued audit committee intervention.</p> <p>(See the tool in chapter 13, “Independent Auditor</p>	<p>Submit reports and documentation of discussions, resolution of disagreements, or action plan for any item requiring follow up.</p>	<p>Review at the completion of the independent audit.</p>	

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<ul style="list-style-type: none"> <li>any significant changes required in the independent auditors' audit plan.</li> <li>any serious difficulties or disputes with management encountered during the audit.</li> <li>matters required to be discussed by AU-C section 260, <i>The Auditor's Communication With Those Charged with Governance</i> (AICPA, <i>Professional Standards</i>), as amended, related to the conduct of the audit.</li> </ul>	<p>Communications with Audit Committee," in this toolkit.)</p>			
<p>21. Review with the general counsel and the CAE legal and regulatory matters that, in the opinion of management, may have a material impact on the financial statements, related government entity compliance policies, and programs and reports received from regulators.</p>	<p>Discuss whether the government entity is in compliance with laws and regulations.</p>	<p>Report to the governing body that the review has taken place and any matters that need to be brought to its attention.</p>	<p>Review at each meeting.</p>	

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
<p>22. Periodically review the government entity code of conduct to ensure that it is adequate and up to date.</p> <p>Review with the CAE and the government entity's general counsel the results of their review of the monitoring of compliance with the entity's code of conduct.</p>	<p>Review results with the CAE and general counsel. Consider any adjustments that may be necessary to the government entity's code of conduct.</p> <p>Consider steps that may need to be taken to ensure that compliance is at the highest possible level.</p>	<p>Report to the governing body that the review of the code of conduct was done.</p> <p>Recommend changes to the code of conduct to the governing body as needed.</p>	<p>Review annually at the fourth-quarter meeting.</p> <p>Review any significant findings as they arise.</p>	
<p>23. Review the policy and procedures for the receipt, retention, and treatment of complaints received by the government entity regarding illegal or unethical behavior, violations of law, regulation, rule or policy of the entity, accounting, internal accounting controls, or auditing matters that may be submitted by any party internal or external to the entity.</p> <p>Review any such complaints that might have been received, current</p>	<p>Review procedures with the CAE or other assigned appropriate person and the general counsel.</p> <p>Review all complaints that have been received and the status of resolution.</p> <p>Ensure that proper steps are taken to investigate complaints and resolve timely.</p> <p>(See also the tool in chapter 10, "Whistleblower</p>	<p>Review an original of each complaint received, no matter the media used to submit. Discuss the status or resolution of each complaint.</p> <p>Review a cumulative list of complaints submitted to date to review for patterns or other observations.</p>	<p>Review at each meeting.</p>	

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
status, and resolution, if one has been reached.	Policy: Complaint Reporting, Anti-retaliation Procedures, and Tracking Report,” in this toolkit.)			
24. The audit committee will perform other functions as assigned by law, the government entity’s charter or bylaws, or the governing body.	Monitor developments in the regulatory, legislative, and legal environments, and respond to any new requirements as needed.		Review new business at all meetings.	
25. The audit committee will evaluate the independent auditors and internal auditors.	<p>Use information from executive sessions conducted throughout the year.</p> <p>Use a formal assessment tool for each group.</p> <p>(See the tools and guidance in chapter 15, “Evaluating the Internal Audit Function: Questions to Consider,” and chapter 16, “Evaluating the Independent Auditor:</p>	Submit recommendations for changes in process and procedures. For independent auditors, request RFPs, if changes are being considered.	Review after completion of the annual audit.	

Audit Committee Charter	Steps to Accomplish the Objective	Deliverable	When to Achieve (Frequency Due Date)	Date Completed
	Questions to Consider” in this toolkit.)			
26. The audit committee will review its effectiveness.	<p>The audit committee will conduct a self-assessment and 360-degree evaluation of all members.</p> <p>(See the tools and guidance in chapter 17, “Conducting an Audit Committee Self-Evaluation: Questions to Consider,” in this toolkit.)</p>	<p>Discuss recommendations for improving the effectiveness of the audit committee with the governing body.</p> <p>Record in the governing body’s meeting minutes.</p>	Review annually.	
27. Create an audit committee calendar for the ensuing year or review and approve the agenda submitted by the CAE.	Complete the “Audit Committee Charter Matrix.” (Use this tool as a sample and tailor it to your organization.)		Review at the final meeting before the upcoming year.	

# Markup of Policy 15.1.0 from Trustee Schmitz





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

PROPOSED REVISIONS FOR DISCUSSION

The Incline Village General Improvement District is committed to be proactive, informed, and to provide the highest level of financial accountability and transparency to its parcel owners and other stakeholders (i.e., the State of Nevada).

The Government Finance Officers Association (GFOA) encourages the effective use of an audit committee in the public sector and considers such a committee an integral element of public accountability and governance. An Audit Committee plays a key role with respect to overseeing the integrity of the District's annual financial statements (the "CAFR") by ensuring those responsible for financial management (Management, and the Board of Trustees) meet their responsibilities for maintaining an effective system of internal controls over financial reporting.

An audit committee also provides a forum separate from management in which <sup>auditors</sup> auditors and other interested parties can candidly discuss concerns. By effectively carrying out its functions and responsibilities, an audit committee helps to ensure 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<sup>1</sup>.

An audit committee should be formally established by the Board of Trustees, be adequately funded, and be subject to a formally approved Audit Committee Charter.

**POLICY:** The Audit Committee (the "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 system of internal controls including the internal audit plans and reports, and the independent auditor's reports within the CAFR.

The Committee shall have open communication with and maintain strong working relationships with the IVGID Board of Trustees, the General Manager, Director of Finance, and the independent auditor.

<sup>1</sup> Source: GFOA Best Practices, Audit Committee

Adopted May 6, 2020 DRAFT KW COMMENTS

Deleted: from 2017 A.C. Policy

Deleted: simple stakeholder iden

Deleted: GFOA language as

Deleted: explanation - xi  
opening paragraph  
of EXECUTIVE SUMMARY  
(original 15.1)

**Commented [KW1]:** Is the objective to utilize best practices from the GFOA and industry or not? This policy deviates from both best practices and I think we need clear justification if we are not going to follow best practices (i.e. board member as AC members, scope of AC responsibilities)

~~by the Board~~ AICPA  
did NOT recommend  
Board members but  
independence.  
See AICPA 2-2 Toolkit  
"appointed by governing  
Board"

Deleted:



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

This Committee shall review the Charter annually with any recommended changes submitted to the Board of Trustees for consideration and approval.

The Board approves NOT AC.

Page 21  
qualifications

**ORGANIZATION:** The Committee shall consist of five (5) voting members. This includes two Board members appointed annually by the Trustees and three members appointed by the Trustees to serve as qualified At-Large Members. Any recommendations for expanding the number of voting members will be recommended by the Committee and submitted to the Board of Trustees for approval. The Committee may retain financial or other appropriate advisors to attend meetings, provide guidance and training, as needed, and as approved by the Board of Trustees for financial expenditures.

GFOA page Xii + xiii

Members of the Committee should have or shall obtain an understanding of accounting, auditing, financial reporting, and internal controls to be able, with the assistance of an advisor if needed, to deliberate on issues for which the Committee is responsible. Therefore, the Board of Trustees may need to budget for periodic training of the Committee members and an outside advisor to assist the Committee with the independent conduct of its work. Any advisor so engaged should possess the following qualifications:

GFOA page 23

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

Yes.  
GFOA  
xiii +  
page 23  
page 22  
27

At-Large 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.

At-Large Committee members shall be expected to comply with all District policies that apply to volunteers as published on the District's website.

Not current doc.

- Annually, the Board of Trustees will appoint two Trustees to be Committee members. In the event a Trustee is removed or resigns, the Board of Trustees shall appoint a new member to the Committee. In accordance with GFOA recommendations, Trustees considered for appointment to the

Adopted May 6, 2020 DRAFT KW COMMENTS

it states  
"District Management shall be responsible for providing copies of all relevant policies to committee members"

These policies are NOT on the website. They are employee HR policies.

**Deleted:**

**Commented [KW2]:** Does not conform to GFOA Best Practices AC should all be BoT members - NOT supported by AICPA. In addition to GFOA best practices, here are resources on public company independence definitions: NASDAQ Definition of Independent Director: [Rules | The Nasdaq Stock Market](#); NYSE Independence Tests: [Microsoft Word - Document1 \(rhco.com\)](#). Based on these definitions of "independent" directors for public companies, all the BoT members are independent - have outside directors. Omitted AICPA Guide on Independence as it relates to auditor independence and not director/AC independence. [plain english guide.pdf \(aicpa.org\)](#) AC is to be independent.

**Commented [KW3R2]:** Other resources - CGMA guide to Government Audit Committees [Government Audit Committees - Part 1 - Charter, Roles and Responsibilities \(cgma.org\)](#); AICPA Governmental Audit Quality Center [Governmental Audit Quality Center \(GAQC\) \(aicpa.org\)](#); AICPA Center for Audit Quality [Center for Audit Quality \(CAO\) \(aicpa.org\)](#); AICPA Audit Committee Effectiveness Center [Audit Committee Effectiveness Center \(aicpa.org\)](#).

**Deleted:** approved

**Deleted:** consideration

**Deleted:** >also AICPA page 2-7

**Commented [KW4]:** The Audit Committee does not have authority to expend funds of the district. adviserly funded

**Deleted:** .

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**Commented [KW5]:** Need to identify minimum qualifications of At-Large Members I recommend:  
- Hold an active CPA license, preferably in Nevada, or have at least 15 years of progressive financial management experience as evidenced on a resume, CV, or LinkedIn  
- Experience on governing boards, either as a committee or board member  
- Provide at least 3 professional references who reported to the person

**Deleted:** District Management shall be responsible for providing copies of all relevant policies to Committee members. 085 ...¶

**Deleted:** ¶

**Deleted:** Appointing Trustees to serve successive years increases continuity and allows for knowledge retention.

Information + reason why At-large are staggered 2-year terms.

qualifications are referenced in paragraph from GFOA page 21



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

NOT needed when prior paragraph states committee members are to be appointed by Board of Trustees. indep should meet

Committee shall not be exercising managerial responsibilities that fall within the scope of the audit of the District.<sup>2</sup> ~~This recommendation would generally preclude the Treasurer from joining the Committee. (NRS 318.085 item 4)~~

Deleted:  
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Commented [KW8]: Disagree, the Treasurer has no more managerial responsibility of district staff than any other member of the BoT.  
Deleted:  
Commented [KW9]: Why are At-Large member terms longer than Trustee appointed terms? I think they should be the same.  
Deleted:

- At-Large Members shall be appointed by the Board of Trustees from applicants with appropriate accounting, auditing and financial reporting expertise with staggered 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.
  - For each subsequent appointment the member will serve a two-year term.

One 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.

Commented [KW10]: I think the Board should recommend who the Chair of the Committee should be for the AC to consider.  
Deleted:

The Committee members are limited to two 2-year terms, which may be extended with the Board of Trustees approval in the event there are no interested or qualified applicants to fill any future vacancies.

OK only way to do it's Board

Commented [KW11]: This statement is contradictory to the Trustee terms serving on the Committee.  
Deleted:

**1.0 Independent auditor reports directly to the Audit Committee**

The independent auditor will be engaged by and report directly to the Committee. The 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 (and related fee impact), beyond the scope of work contained in the engagement letter and the audit plan, to fulfill their responsibilities before any such work is undertaken.

GFOA page 21 Staggered 2-year terms are for knowledge retention could do same for Trustees, but election terms have an impact.  
Deleted:

**2.0 Scope of the Committee's Authority and Responsibilities**

→ this is to clarify that no additional work should be billed w/o approval of funding Jennifer Fair discussed this possibility with the AC. It's important to have a clear plan of execution.

<sup>2</sup> "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" Source: GFOA Best Practices, Audit Committee

Deleted:



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

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

1. Financial reporting
2. Internal controls
3. The independent audit of the basic financial statements
4. The CAFR

To fulfill these responsibilities, the Committee shall:

- 2.1 Be independent, effectively communicate, and reinforce accountability.
- 2.2 Manage the external independent audit procurement process.
  - 2.2.1 Review and approve the Request For Proposal (RFP) for an independent auditor to be retained by the District. Such engagement should be for no more than five fiscal years in duration.
  - 2.2.2 Make recommendations on the scope of work including the identification of funds to be audited.
  - 2.2.3 Make recommendations to the Board of Trustees and take subsequent action to engage an independent auditor.
  - 2.2.4 Review and approve the engagement letter (i.e., contract) between the District and the independent auditor
  - 2.2.5 If deemed necessary, identify and recommend additional services to be performed.
  - 2.2.6 By March 31st of each calendar year, the Board of Trustees is to formally designate an external independent auditor and inform the Nevada Department of Taxation. (NRS 354.624 item 3)
  - 2.2.7 When appropriate replace the independent auditor and initiate the procurement process (2.2.1).
- 2.3 Facilitate the external audit process.
  - 2.3.1 Review and approve, in consultation with the independent auditor, the annual audit plan, the scope of audit activities and schedules by June of each year

*NO APP - audit service! AICPA 2-9*

**Commented [KW12]:** Not all the items below support this objective. See noted items.

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*it is to clarify what specific funds are audited.*

**Commented [KW13]:** This inherently could impact the independence of the auditor  
*Maybe we need to coordinate a conversation with Davis Farr?*

*NO AICPA 2-9*

**Commented [KW14]:** See comment above, independence issue?

*OK*  
*AC RFP + auditor performance Report to BOT*  
**Commented [KW15]:** Need to define "When appropriate". This is too broad of a statement. Also, the AC does not have any authority in the procurement process.

**Commented [KW16]:** This section shows a lack of understanding of the roles of the auditor, AC, and management in the external audit process.  
*all from GFOA*  
*Also, again, not all the items below support this objective. AICPA*

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*Resp of A.C. GFOA page 39*

Adopted May 6, 2020 DRAFT KW COMMENTS



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

- 2.3.2 Provide an independent forum for auditors to report findings or difficulties encountered during the audit
- 2.3.3 Review with the District management and the independent auditor all major issues regarding:
  - 2.3.3.1 Accounting Principles
  - 2.3.3.2 CAFR presentation
  - 2.3.3.3 Any significant changes in the selection or application of accounting principles — GFOA + AICPA
  - 2.3.3.4 Significant judgments made in the preparation of the CAFR and basic financial statements
  - 2.3.3.5 The effect of regulatory initiatives — AICPA 2-15
  - 2.3.3.6 Off-balance sheet structures
  - 2.3.3.7 Changes to audit plan of independent auditor as a result of any additional issues identified by the auditor
  - 2.3.3.8 Any restrictions on the scope of the auditor's activities or on access to requested information or managements responses
- 2.3.4 To review with District management and the independent auditor any material conflicts or disagreements between District management and the independent auditor, whether or not resolved, regarding financial reporting, accounting practices or policies or other matters, that, individually or in the aggregate, could be significant to the District's financial statements or the independent auditors' report, and attempt to help resolve any conflicts or disagreements regarding financial reporting.
- 2.3.5 According to the approved work plan, conduct periodic meetings with the external auditor to review progress, issues identified, concerns and the audit timeline
- 2.3.6 Review and approve the Management Representation letter by the District's management prior to submittal of the letter to the independent auditor.
- 2.3.7 The Committee shall submit a written report to the District's Board of Trustees in conjunction with the presentation of the CAFR to the Board of Trustees by the end of December.
- 2.4 Post External Audit Followup

GFOA page 49 + 51 +  
AICPA 2-3 + staff

**Deleted:**

auditor - part of their work plan  
Standard AICPA + auditor plan

**Commented [KW17]:** This shouldn't be the responsibility of the Committee. Management should bring these issues to the auditor and AC

GFOA page 50  
Standard - no issue w. staff or auditor  
agree - not sure what wording created

**Commented [KW18]:** This shouldn't be the responsibility of the Committee. It is the auditor's requirement to bring this to the attention of the Committee as part of their required communications, which is standard auditing practice, not Audit Committee practice.

**Commented [KW19R18]:** Recommend revising to "Review auditor's required communications."

its the AC respons to - GFOA page  
**Commented [KW20]:** This is Management's responsibility, not the Committee

**Commented [KW21R20]:** Recommend revising to "Review Management's Representation Letter."

AICPA 2-17 #19  
part of GFOA page 32.3.6  
"The committee needs to determine to its own satisfaction"

discussed w. staff - agree ok in effort to rebuild trust + a good strong working relationship.



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- 2.4.1 Follow-up on any corrective actions identified by the external auditor, if any
- 2.4.2 Annually evaluate the work of the independent auditor and lead audit partner based on compliance with work plan and engagement letter
- 2.4.3 At least annually, obtain and review a report by the independent auditor that describes:
  - 2.4.3.1 the independent auditor's internal control procedures
  - 2.4.3.2 any material issues raised by the most recent peer review of the independent auditor
  - 2.4.3.3 any inquiry or investigation by governmental or professional authorities, within the preceding five years regarding any audit performed and any steps taken to deal with any such issues.
- 2.5 The Committee may identify a need to engage an external resource to address a specific area of concern:
  - 2.5.1 The Committee shall seek approval from Board of Trustees to obtain appropriate resources. *GPOA XIII 23+ 42*
  - 2.5.2 The Committee shall agree the Scope of Work
  - 2.5.3 The Committee is responsible for engaging the resource to perform the scope of work.
  - 2.5.4 The external resource shall report findings to the Committee.
  - 2.5.5 The Committee will provide findings to the Board of Trustees and recommend implementation of the findings, if any.
  - 2.5.6 Management will have the responsibility for implementation of identified changes or enhancements.
- 2.6 The Committee shall review and provide oversight of the internal controls ensuring management establishes, implements and reviews internal controls on a regular basis for functionality and effectiveness.
  - 2.6.1 Management will provide an annual schedule for the review of District Financial Practices (internal control) documents. These documents will be provided to the Audit Committee for their review and oversight.

Should be part of engagement letter.  
Are they required to provide?

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Commented [KW22]: I don't understand why this is included. This should be part of the RFP process to evaluate the professional credentials of the firm we are hiring.  
Commented [KW23]: Need to define parameters for this. Again, the AC does not have the authority to procure services.  
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+ AICPA 2-7

part of A/C responsibilities oversight of internal controls  
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Many GPOA pages - pages 54-56 a couple of examples  
Deleted:

→ oversight



Accounting, Auditing, and Financial Reporting  
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ACPA 2-19 #22

2.7 Annually review the District's Code of Conduct that promotes honest and ethical conduct; full, fair, accurate, timely disclosures in periodic reports including the CAFR; and compliance with applicable policies and practices to ensure it is adequate and up-to-date.

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2.8 To annually review and refine as necessary the whistleblower 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

GFOA page 55+56

2.8.1 Review and refine as needed the procedures for educating employees on their individual role in ensuring the District's financial integrity.

ACPA 2-19 #23  
GFOA page 55+56  
A/C responsibility to establish proced

2.8.2 Ensure employees of the District have an anonymous method for concerns to be submitted.

Commented [KW24]: Whistleblower policy should be the responsibility of the BoT, not the AC

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this changes w WB.

**NOTE: This is predicated upon approval of the current whistleblower policy and may require to be updated dependent upon BoT changes to the whistleblower policy**

2.9 Reports to Board of Trustees.

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2.9.1 The Committee shall submit an annual report to the Board of Trustees assessing its fulfillment of its duties and responsibilities as described in the Charter

GFOA page XIV  
The AC should conclude its work each year by submitting a written public report to the full governing body on how it has discharged its duties + met its responsibilities

GFOA page 63

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. Any member missing two consecutive meetings without due cause (i.e., illness) will be reviewed for continued membership on the Committee by the Chairs of the Committee and Board.

GFOA page XIV - AC typically

Commented [KW25]: Why? The district does not have quarterly reporting requirements

Should meet no less than once each quarter.

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- 3.3 The committee Chair shall establish the agenda for meetings and provide all briefing materials to members and the public in advance.
- 3.4 The District's management is to provide to the Committee at least 7 calendar days prior to a Committee's public meeting, copies of all materials which are to be presented by management
- 3.5 The Committee shall 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.
- 3.6 The Committee shall review all past correspondence which contains outstanding action items. Ensure responses and/or corrective action is taken in a timely manner.
- 3.7 The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary.
- 3.8 An annual meeting is to be held with the independent auditor, the General Manager, the Director of Finance, legal counsel and anyone else as desired by the Committee to review the audited annual basic financial statements including the Comprehensive Annual Financial Report (CAFR) and the auditor's material written communications with the District

*in here because materials have not been provided in packets.*

**Commented [KW26]:** Why include in policy as this is dictated by NRS?

**Commented [KW27R26]:** Suggest referencing relevant NRS.

**Commented [KW28]:** Need to define what type of correspondence the BoT delegates to the AC to review. Not all correspondence should fall under the purview of the AC.

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**4.0 Annual Financial Risk Assessment and Risk Management.**

The Committee shall review and discuss with District management and the independent auditor the District's major financial risk exposures, and the steps management has taken to monitor and control those exposures. It is the Board's responsibility to ensure the District has adequate controls and plans for risk mitigation for areas beyond finance.

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