

MEMORANDUM

TO: Audit Committee Members
Matthew Dent, Sara Schmitz, and Tim Callicrate

FROM: Matthew Dent
Audit Committee Chair

SUBJECT: Review, discuss, and possibly recommend to the Board of Trustees at their March 11, 2020 Board of Trustees meeting that the Audit Committee Chair be authorized to engage an independent expert for a sum not to exceed \$35,000 to give an opinion and/or guidance on the issues raised by the Board of Trustees regarding the District's 2019 CAFR as well as guidance on accounting policies used in the preparation of the District's financial statements.

DATE: February 28, 2020

I. RECOMMENDATION

That the Audit Committee members make a motion to recommend that the Board of Trustees at their March 11, 2020 Board of Trustees meeting that the Audit Committee Chair be authorized to engage an independent expert for a sum not to exceed \$35,000 to give an opinion and/or guidance on the issues raised by the Board of Trustees regarding the District's 2019 CAFR as well as guidance on accounting policies used in the preparation of the District's financial statements.

II. BACKGROUND

The Board of Trustees have several unanswered questions regarding the 2019 CAFR. It has been discussed at previous regular Board of Trustees meetings that a independent expert should review and give the Board guidance.

III. FINANCIAL IMPACT AND BUDGET

This item has no financial impact in regards to the Audit Committee. The Board of Trustees will need to approve in order for this to have a financial impact to the budget.



January 30, 2020

State of Nevada
Department of Taxation
1550 College Parkway, Suite 115
Carson City, Nevada 89706-7937

Attention of Ms. Kelly S. Langley, CTP
Local Government Finance Supervisor
Department of Taxation

Subject: Receipt of the Incline Village General Improvement District
Comprehensive Annual Financial Report, Fiscal Year Ending June 30,
2019; Trustee(s) Comments

Dear Ms. Langley,

Following are the comments from our Board of Trustees regarding the above
subject matter.

From Trustee Peter Morris:

As an experienced business executive and owner but not an accountant by training, it's been my experience over my career that in accounting there is often opportunity for difference in philosophy. Those who dislike the current CAFR report may have philosophical differences with the way IVGID has accounted for its inflows and outflows, but I rely upon the expertise and experience of our Director of Finance; that of our external auditors; plus, the history of our success in past audits and state submissions. Therefore, I believe this is a sound report. I can see nowhere has there been any intentional misreporting or deceptive intent. So with that said, I do not believe I have any issues with or concerns over the report.



From Trustee Kendra Wong:

I have no substantive comments regarding the CAFR and support filing the CAFR with the State of Nevada, Department of Taxation. All of my questions were addressed by the Director of Finance and General Manager prior to our meeting on December 11, 2019. As previously communicated to our staff, my comments primarily relate to clarity and consistency of wording throughout the document; however, I did not view this as a reason not to file the CAFR. Additionally, with a new Director of Finance joining our team, there is an opportunity for him to look at the document from a fresh perspective. I appreciate the work our Finance team and EideBailly have done to ensure we could file the CAFR with the State of Nevada, Department of Taxation in a timely manner.

From Trustee Matthew Dent:

As a fiduciary for the District we have responsibility to ensure that the financials, narratives, and supporting documents are accurate and complete. The purpose of the CAFR is to be transparent about the use of taxpayers' dollars and provide a detailed account of how the funds were spent. Over the last several years we have raised questions in regards to the audited and unaudited portions of the CAFR. It was my understanding this year would be different and we would have written response to these concerns and the issues would be addressed.

Some of my concerns have been the following:

- *Lack of oversight by the Audit Committee*
- *Treasurer of the Board is in name only and apparently the Director of Finance is actually the Treasurer*
- *Financial statements can be manipulated if costs are wrongly expensed or capitalized. An example, would be the capitalizing Master Plans that are nothing more than surveys and wish lists rather than expensing them.*
- *No oversight or opinion by the auditor when it comes to the Districts internal controls*
- *Only a few business days to review the CAFR when staff has it weeks in advance*
- *Inconsistent reporting – sometimes we report contracts or grants another times we don't*
- *No oversight of managements representation to the auditors*

From Trustee Tim Callicrate:

As the newly appointed Chair of the IVGID Board of Trustees, I am advising the Nevada Department of Taxation that I will receive, but I will not approve, the District's 2019 CAFR. It is my understanding that the Department is requiring that the CAFR be submitted by January 31st, 2020. To meet this deadline, I am agreeing to the submittal.

I am also stating for the record that after reviewing the CAFR there are more than 14 errors along with potential errors in the Financial Statements and the Footnote disclosures. These errors appear in the audited as well as the unaudited portions of the 2019 CAFR. Many of these errors have been raised by other Trustees at the January 22nd, 2020 Board of Trustees meeting, memorandums sent to the previous Audit Committee Chair from our citizens raising concerns about the District's accounting and reporting practices, as well as more recent communications with accounting and finance professionals in our community.

Of these errors I am citing, there are six which will require EideBailly to provide an opinion on whether the transactions follow GAAP, GASB statements and NRS statutes:

- 1. Change in accounting from Enterprise to Governmental funds for the Community Services and Beach activities*
- 2. Punch Cards utilized*
- 3. Central Services cost allocations for the Community Services and Beach Special Revenue Funds*
- 4. Revenue recognition in Utility Fund for advanced billings*
- 5. Reporting Recreation and Beach Facility Fees as General Revenues in Statement of Activities*
- 6. Reporting Ball Field Grant as a receivable and a revenue item*

The remaining issues relate to changes to the basic financial statements due to omissions, errors, and/or misjudgments by IVGID staff. These issues may not require the opinion of the independent auditor. However, the changes expected are material and the basic financial statements are required to disclose important transactions. We would expect EideBailly to accept changes that will ensure greater financial statement accuracy and more complete disclosures. These are the major items:

- Expensing Pipeline repairs and assessments*
- Expensing Feasibility and Master Plan Studies*

- *Expensing the fire rehab costs to open the Mountain Golf Course Clubhouse for 4 months*
- *Cleaning up omissions on Carryovers and Contracts in Note 19*
- *Omission of leases*
- *An error in list of items in note 1 that do not match details*
- *Assigned fund balance has not been assigned to the GM*
- *Changing assigned fund balance to committed fund balance for outstanding contracts.*

The District's lack of Internal Controls is particularly troublesome. Although Management has represented in their letter of transmittal that the completeness and reliability of the financial statements rest upon a framework of comprehensive internal controls, there are no written policies or procedures available or reports on internal controls. A citizen and a Trustee have requested this documentation. It has not been provided by management or the former Audit Committee members.

Correcting the grammar, ambiguous terms, and numerous misleading statements will also have to be undertaken.

It would be preferable for the NV Department of Taxation to permit our Board and new audit committee to get this right before submittal, but as the Department will not grant us an additional extension we expect to restate the 2019 CAFR in the near future.

From Trustee Sara Schmitz:

As a newly appointed Trustees on January 14, 2020, I am writing to share my concerns related to the 2019 CAFR. My perspective, due to being newly appointed, is that of a parcel owner and taxpayer.

After members of our community investigated and reported inaccuracies discovered in the District's 2016 CAFR submitted to the State, the CAFR was restated in 2017. At that time, EideBailly, our independent auditor found material weakness in the District's internal controls over financial reporting (see attached memorandums dated November 30, 2016). Since this time, management has not reported on the changes made to address these deficiencies.

In a memo dated September 13, 2019, members of our community once again brought to management's attention the inappropriate transfer of funds from the self-insurance (Workers Compensation) fund to the Utility Fund, Community

Services Special Revenue Fund, and the Beach Special Revenue Fund. The necessary corrections have been made, however this once again raises concerns regarding internal controls and financial oversight by the Board and the Audit Committee.

In November of 2017, the Audit Committee modified the Accounting, Auditing, and Financial Reporting Audit Committee Policy 15.1.0 reducing the required annual meetings from four times a year down to only once a year. In 2019, it was discovered the Board appointed Treasurer was not fulfilling his NRS stated responsibilities and had delegated the responsibility to the Director of Finance without Board or community knowledge.

Neither the Board nor the Audit Committee has been provided internal control documentation, policy or internal control procedures related to the District's financial reporting. It is not within the scope of work for the independent auditor to review and comment on the District's internal controls.

This lack of oversight and verification of internal controls has me concerned. I believe with the new General Manager, Director of Finance, and a new Audit Committee, the issues of internal controls and proper financial oversight will be corrected.

If I can be of further assistance or require anything else, please do not hesitate to let me know.

Best regards,



Susan A. Herron
District Clerk

Attachments: Four (4) pages from Trustee Schmitz

cc: Board of Trustees (5)
Interim General Manager Winquest



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Incline Village General Improvement District
Incline Village, Nevada

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Incline Village General Improvement District (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as Finding 2016-A to be a material weakness.

www.eidebailly.com

5441 Kietzke Ln., Ste 150 | Reno, NV 89511-2094 | T 775.689.9100 | F 775.689.9299 | ECE

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Esda Savelly LLP

Reno, Nevada
November 30, 2015

Incline Village General Improvement District
Schedule of Findings and Responses
For the Year Ended June 30, 2016

2016-A Preparation of Financial Statements in Accordance with Generally Accepted
Accounting Principles
Material Weakness

Criteria: Management is responsible for establishing and maintaining an effective system of internal control over financial reporting. Properly reporting components of net position is a key component of an effective system of internal control over financial reporting.

Condition: Subsequent to the issuance of the June 30, 2016 financial statements, an error was discovered in the classification of net position for the Internal Services Fund in the Proprietary Funds Statement of Net Position.

Cause: An independent review of the financial statements, separate from the individual preparing them, is not performed.

→ Effect: The financial statements had to be restated to reclassify \$323,642 of net position from net investment in capital assets to unrestricted.

→ Recommendation: We recommend Incline Village General Improvement District implement an additional level of review of the financial statements.

Views of Responsible
Officials: Management agrees with this finding.



CPAs & BUSINESS ADVISORS

Auditor's Comments

To the Board of Trustees
Incline Village General Improvement District
Incline Village, Nevada

In connection with our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Incline Village General Improvement District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, nothing came to our attention that caused us to believe that the District failed to comply with the specific requirements of Nevada Revised Statutes cited below. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the requirements of Nevada Revised Statutes cited below, insofar as they relate to accounting matters.

Current Year Statute Compliance

The required disclosure on compliance with Nevada Revised Statutes and the Nevada Administrative Code is contained in Note 1E to the financial statements.

Progress on Prior Year Statute Compliance

The District reported no instances of noncompliance with significant constraints on its financial administration during the year ended June 30, 2015.

Prior Year Recommendations

There were no findings for the year ended June 30, 2015.

Current Year Recommendations

The current year findings are reported in the Schedule of Findings and Responses.

Eide Bailly LLP

Reno, Nevada
November 30, 2016

www.eidebailly.com

5441 Kietzle Ln., Ste. 150 • Reno, NV 89511-2094 • T775.689.9100 F775.689.0200 • EOE



Conduct Meetings of the Board of Trustees Policy 3.1.0

POLICY. The Board of Trustees will fix the time and place of the regular meeting of the Board of Trustees of the Incline Village General Improvement District and provide the manner in which special meetings of said District may be called, designating an official mailing address, and establishing the order of business and rules for its proceedings for the Incline Village General Improvement District, Washoe County, State of Nevada.

- 0.1 Regular Meetings.** The regular meetings of the Board of Trustees of the Incline Village General Improvement District shall hereafter be held at the time and place set by the Board of Trustees.
- 0.2 Special Meetings.** Special meetings of the Board of Trustees shall be held upon call of the Chair of the Board or of at least two of the members thereof. Notice of all meetings shall be given in conformity with the provisions of Nevada Revised Statutes 241.020.
- 0.3 Meeting Place.** All meetings of the Board of Trustees shall be held within the District.
- 0.4 Holidays.** In the event that any day fixed for a regular meeting of the Board shall fall upon a holiday, that meeting shall be rescheduled by the Board.
- 0.5 Item(s) of Business.** The item(s) of business at the regular meetings of said Board may include, but are not limited to:
 - Roll call of Trustees
 - Initial Public Comment
 - Public Hearings (if any)
 - Approval of minutes
 - Approval of agenda
 - Approval of Bills
 - Reports
 - Consent Calendar*
 - General Business*
 - Final Public Comment
 - Adjournment



Conduct Meetings of the Board of Trustees Policy 3.1.0

*UNLESS OTHERWISE APPROVED BY The Board Chair, no matter shall be heard, or acted upon unless all relevant materials have been included in the Board of Trustees Meeting Packet.

0.6 Rules of Proceedings.

- a. Public Meetings. All meetings of the Board shall be in accordance with Nevada Revised Statutes 241, the Nevada Open Meeting Law.
- b. Quorum. A majority of the Board of Trustees present in person or by remote communication shall constitute a quorum for the transaction of business. In no event shall any matter be approved without the affirmative vote of three trustees.
- c. Method of Action. The Board of Trustees shall act only by motion which, to become effective, shall be adopted by the affirmative vote of at least a majority of its members present in public meeting, unless otherwise provided by statutes. In the event of only three members present, the method of action must be unanimous.
- d. Recording Vote. Except where action shall be taken by the unanimous vote of all Trustees present and voting, the yes/ayes and no/nays shall be taken on all actions had and entered upon the minutes. All Trustees shall have the equal right to vote, make and second motions. If the vote for/against any item is not unanimous, the Chair may ask the Clerk to conduct a roll call vote.
- e. Ordinances. The enacting clause of all ordinances passed by the Board shall include the word "ordinance" and be consecutively numbered. All actions to pass or revise an ordinance shall be attested by the Secretary.



Conduct Meetings of the Board of Trustees Policy 3.1.0

- f. Contracts. Contracts entered into by the District that are required to be advertised under Nevada Revised Statutes 332 and/or 338 must be approved by the Board of Trustees. All documents approved or awarded by the Board shall be signed in the name of the District by the Chair and countersigned by the Secretary, unless authorization to sign is given to another person(s) by the Board.

Contracts, other than those covered by Nevada Revised Statutes 332.115 and which are not subject to the advertising thresholds of Nevada Revised Statutes 332 and/or 338, may be authorized, approved and executed by the General Manager of the District or designee, unless otherwise ordered by the Board of Trustees.

Contracts covered by Nevada Revised Statutes 332.115 may be authorized, approved and executed by the General Manager or his designee of the District, if it is for an amount less than the advertising threshold of Nevada Revised Statute 332. Contracts over the threshold of NRS 332.115 must be approved by the Board of Trustees.

- g. Claims. The General Manager and General Counsel, and their designees, are authorized to negotiate on behalf of IVGID, the settlement of all property damage, personal injury, or liability claims, unless otherwise ordered by the Board of Trustees. Final settlement of such claims may be authorized by the General Manager, provided the amount attributed to IVGID is less than the amount that must be approved by the Board for amounts per occurrence, including all sources of payment (insurance, risk reserve, operating funds, or working capital). For claims that exceed the amount, those must be approved by the Board, the General Manager may authorize and accept a tentative settlement, which shall not be final and binding upon IVGID, unless and until approved by the Board of Trustees.
- h. Litigation. The General Manager must obtain Board of Trustees authorization, at a public meeting, to initiate any lawsuit.



Conduct Meetings of the Board of Trustees Policy 3.1.0

- 0.7. Robert's Rules.** Unless contrary to this rule, such meetings shall be substantially conducted in conformity with Robert's Rules of Order unless those provisions conflict with Chapter 241 of the NRS, in which case, the statutes will prevail.
- 0.8. Agenda Preparation.** The Board Chair, in cooperation with the General Manager, is responsible for preparing the agenda for each meeting. The Chair will place on the Agenda any item requested by a fellow Trustee. The General Manager shall schedule for consideration by the Board any matter requested to be placed on the agenda by any three Trustees. Unless directed otherwise by the Board, the General Manager may delay consideration of any item. In any conflict between the provisions of this paragraph and that of paragraph 0.9., paragraph 0.9. shall govern.
- 0.9. Reconsideration.** Reversal, or substantial modification, of any item by the Board of Trustees within six months of the meeting date at which the action was taken, shall only be considered as follows: the General Manager may request reconsideration of any action of the Board, and place reconsideration of the action before the Board, if the General Manager determines that the action compromises the efficiency of operations or otherwise impairs the effective management of the District. Additionally, a Board action may also be scheduled for reconsideration if at least three Trustees request same. Once placed on the agenda under the procedure established herein, the Board may rescind, modify, reaffirm, or take no action on the item; in the same manner it would take action on any other general item of business.
- 0.10. Public Participation.** Comments shall be solicited from the public during two comment periods, one at the start of the meeting and one prior to adjournment. The time limit shall be three (3) minutes for each person per comment period. No yielding of time shall be allowed.
- 0.11 Officers of the Board.** The officers of the Board shall be elected as provided by Nevada Revised Statutes 318.085 and shall consist of a Chair of the Board, Vice Chair of the Board, Treasurer, and Secretary.



Conduct Meetings of the Board of Trustees Policy 3.1.0

The term of office shall be for one (1) year or until a reorganization of the Board is required.

- 0.12 Authorization to Sign Checks.** The General Manager and the officers of the Board are hereby authorized to sign checks drawn on the various bank accounts of the District. It shall be required that at least two (2) signatures are affixed to any check drawn on such accounts.
- 0.13 Facsimile Signatures.** The banks with which the District does business are authorized and directed to honor checks drawn on the various bank accounts of the District, when bearing any two facsimile signatures of the officers of the Board and General Manager of the District, after their manual signatures are filed with the Secretary of State, in conformance with Nevada Revised Statutes 351.030.
- 0.14 Reports.** The Board Meeting agenda may include items under Reports which are intended to inform the Board and/or the public. These reports are not actionable items rather informational in nature and substance. Should an action be required the matter shall be presented as a General Business Item.
- 0.15 Consent Calendar.** 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 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 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.



Conduct Meetings of the Board of Trustees Policy 3.1.0

A unanimous affirmative vote shall be recorded as a favorable motion and approval of each individual item included on the Consent Calendar.

0.16 Advisory Committees. SECTION OMITTED

0.17 Legislative Matters. The General Manager may from time to time propose positions on legislative issues, which positions shall be reviewed and approved by the Board at its regular meeting. In the event a position on a legislative issue must be established prior to the next regular Board meeting, the General Manager is hereby authorized to adopt a position on IVGID's behalf.

0.18 Conflict Resolution. In the event that the provisions of Policy 3.1.0 conflict with any other Policy Provisions, this section shall prevail.