

MINUTES

AUDIT COMMITTEE MEETING OF FEBRUARY 12, 2020 Incline Village General Improvement District

The Audit Committee meeting of the of the Incline Village General Improvement District was called to order by Chairman Tim Callicrate on Wednesday, February 12, 2020 at 4:30 p.m. at the Chateau located at 955 Fairway Boulevard, Incline Village, Nevada.

A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*

On roll call, present were Trustees Tim Callicrate and Sara Schmitz. Absent was Trustee Matthew Dent who was out sick.

Also present were Controller Lori Pommerenck.

Members of the public present were Steve Dolan, Mark Alexander, Linda Newman, and others.

(11 individuals in attendance at the start of the meeting which includes Trustees, Staff, and members of the public.)

B. PUBLIC COMMENTS*

Linda Newman read from a submitted written statement which is attached hereto.

C. APPROVAL OF AGENDA (for possible action)

Trustee Callicrate asked for changes; none were submitted so the agenda was accepted as presented.

Trustee Schmitz said that she would like to have Trustee Dent be here for the selection of the Audit Committee Chair. Trustee Callicrate asked for Counsel's opinion. District General Counsel Geno Menchetti said that two of you are present so you have a quorum. Trustee Schmitz said she was fine with the agenda as submitted.

D. GENERAL BUSINESS (for possible action)

D.1. Selection of an Audit Committee Chair (reference Board Policy 15.1.0, subparagraph 2.8)

Trustee Callicrate turned this agenda item over to District Clerk Susan Herron. District Clerk Herron asked for nominations for Audit Committee Chair.

Trustee Schmitz nominated Trustee Matthew Dent as Audit Committee Chair; Trustee Callicrate seconded the motion. Hearing no other nominations, District Clerk Herron announced that Trustee Matthew Dent is the Audit Committee Chair.

D.2. Review, discuss and possibly revise Board Policy 15.1.0 to incorporate the attached Audit Committee Charter (Requesting Audit Committee Member: Trustee Sara Schmitz)

Trustee Schmitz said that she provided this more as something for the Audit Committee members to review and to see how Washoe County is handling things. She understands that the scope is larger however she does feel that there are some great details about non-voting members from the at-large community as well as things in here that would help us do a better job. Trustee Schmitz continued that she would like to get feedback from Trustees Callicrate and Dent and that she has it in Word format so we can do whatever we want.

Trustee Callicrate said that this is a great first step and start and that he has made notes of several potential changes. He would like to bring this back when Trustee Dent is here as he will have his own comments. He would suggest that Trustee Schmitz take the changes that she has made so we can start from there and submit that to the District Clerk who can then distribute to us and we can then make any corrections such that we can then bring it back to this committee. There will be a great opportunity for our new Director of Finance to have input so let's bring it back at the next meeting.

Trustee Schmitz said that she would like to give people a few to do's – she will send this out in Word format or you can mark your copy up and then she would request that Trustees Callicrate and Dent provide their comments or feedback by February 19 and then she will take on the to do to review it with the Interim District General Manager as she would like to get his input as well. Trustee Schmitz then asked when the new Director of Finance will be here; Interim District General Manager Indra Winqest said March 16 however there may be an opportunity to reach out prior to that and he will let Trustee Schmitz know if that is possible. Further, he would be happy to sit down with Trustee Schmitz to review this as he likes it and it is a good

framework. Once the Audit Committee has completed its work, it would have to go to the entire Board for their review and approval.

Trustee Callicrate said that worked for him and closed this item.

D.3. Review, discuss, and possibly provide direction to Staff on a Whistleblower Program and any revisions that may be required to Policy 15.1.0, Long Range Principles #3 and existing Human Resources policies and/or procedures (Requesting Audit Committee Member: Trustee Sara Schmitz)

Trustee Schmitz said that she knows that the Audit Committee, about a year ago, gave Staff direction to put something together however it doesn't appear that there is anything written that has been provided and that she didn't see anything within the packet. Trustee Schmitz then discussed the concept of a flow chart and made a reference to agenda packet page 36, Item 1, and asked about a method to track.

Trustee Callicrate said there is a great opportunity to review policies and procedures so we can start working on them. Interim District General Manager Winquest directed attention to agenda packet page 37 and read that page. We do have an internal process however it would be best to formalize it and noted that a process was created just as a matter of where we want to go from here. He would be happy to go through that with Trustee Schmitz as well.

Trustee Callicrate said that he knows that Trustee Dent brought this up as well and that it is good information to get out to the entirety of the employees as well as a refresher. He appreciates Trustee Schmitz putting this in the packet.

Trustee Schmitz said that the idea was to make sure people are aware and that it is formal and in writing. Reference agenda packet page 18, Trustee Schmitz said while developing your policy, you should consider having the employees signing it so they are aware of the District's policy and that it is good to have a reminder. She knows that we are all doing the right thing but anything we can do to further cultivate that culture would be helpful.

Interim District General Manager Winquest said that it is important to engage our Director of Human Resources as we have a robust orientation as well

as customer service trainings and refreshers. It is a best practice to have a sign off on a whistleblower program.

Trustee Schmitz said we can review and compare to what was provided as it is a great document to look at.

Interim District General Manager Winquest said he would ask the Director of Human Resource to reach out to Trustee Schmitz and that he will be a part of that meeting.

Trustee Callicrate closed this item.

D.4. Review, discuss and possibly request a bid from EideBailly for an internal financial control review with the scope of work to include (1) the review of existing financial control procedures and (2) formulation of recommendations for changes and/or additions to internal controls (Requesting Audit Committee Member: Trustee Sara Schmitz)

Trustee Schmitz said that she is recalling back to our discussion on the Comprehensive Annual Financial Report (CAFR) and that there were statements in that document that assured us that all of our financial processes were in compliance; she has requested that information and they are not readily available. She would like to pull together what we have and have another set of eyes review it to identify the gaps of where to fill in as it is in all of our best interests to go about that process and the first step is to review what we have.

Interim District General Manager Winquest said that we have had a public records request for a master document on how we do things. Our current Controller does have an auditing background and there are a lot of processes that have several layers of oversight so he is going to be asking our new Director of Finance to formalize our processes and put that out on our website. We are both fully in support of hiring an outside firm as nothing but good can come from that review. However, there are no funds budgeted to do this work so a decision is needed as to whether this should be done in the current fiscal year which is definitely possible or we can budget it for next year which is his preference; he does need direction on that item. Additionally, before any work starts, the Audit Committee needs to be comfortable with the scope of work/service.

Trustee Schmitz asked if it was possible to do some things concurrently – go out to request for proposal as it might be a wise thing to do as we don't know what the cost is and thus it might be in our best interest to take that approach while continuing to gather our internal documents and at the same time go out to request for proposal and take some time doing that and then when our new Director of Finance is on board, he can look at it.

Trustee Callicrate said he wanted to make sure we weren't going outside the agenda item. District General Counsel Menchetti said you are asking the Staff to prepare. Trustee Schmitz said that asking is better than going to one source. District General Counsel Menchetti said that request for proposals are expensive and time consuming and there will not be a lot of agencies that will respond to it and you may only get one firm to respond. When it comes to professional services, there are very few companies that are willing to go to that expense and while he isn't saying you can't do that, he is not sure about the results.

Interim District General Manager Winquest said that he concurs with District General Counsel. A request for proposal is about a scope of services and a request for qualifications is obtaining a company's qualifications based on a scope of services. Are you looking for a bid or price or are you looking for who is qualified and the best fit – you could table this item and Staff will continue to do our work as he already has Staff working on compiling these documents but right now we are in the middle of pencils down on the draft budget and the Accounting Team is extremely busy right and that he would recommend that right around the time our new Director of Finance gets here or you could put it on the agenda for the next Audit Committee meeting.

Trustee Callicrate said that probably makes the best sense as Trustee Dent is not here today and he is sure he has some information to share.

Trustee Callicrate made a motion to table this item, take no action and put it on the agenda of the next Audit Committee meeting. No second was made thus the motion died.

District General Counsel Menchetti said because it is professional services, Staff can talk informally with people who are qualified and take their temperature.

Trustee Schmitz said that is why she recommended EideBailly as she felt they had some exposure to internal controls and that was an opportunity to leverage existing knowledge.

Trustee Callicrate said that since this is professional services, we can take the temperature without saying you are the one who is going to get it.

Interim District General Manager Winquest said he agreed with Trustee Schmitz in hiring our current auditors as that is a lot less leg work however it is a decision for the Audit Committee.

Trustee Callicrate said he would like Staff to do some information activities while continuing the accumulation of information.

Trustee Schmitz said should would like to reach out to EideBailly as there are a few things that the Audit Committee needs and that it could be done by either herself or Chairman Dent and that we should identify what the questions are that we have for them.

Trustee Callicrate closed this item.

D.5. Review, discuss and possibly provide direction to Staff on the topics of (1) Board questions regarding the 2019 CAFR and (2) Scope of work/follow-up with EideBailly for the next District Audit, Fiscal Year Ending June 30, 2020 (Requesting Audit Committee Member: Trustee Tim Callicrate)

Trustee Callicrate said that several questions that were brought up by the Board of Trustees for the CAFR that just concluded and then what the scope of work will be for the next audit of the District is what this item is about. When the Audit Committee gets its scope of work, he wants to continue that dialogue so we have that specific scope of work and we can share what we want to see in the next audit and while he doesn't know what the particulars are, he would like to work with the Interim District General Manager to come up with what we work with EideBailly on.

Interim District General Manager Winquest said that Policy 15.1.0 states that the independent auditor works with the Audit Committee and that the Audit Committee drives the audit so he is looking for direction from the Audit Committee as you do have that authority to direct the independent auditors.

Trustee Callicrate said that he wants to having that conversation so we are not out in left field and to preclude that the three of us have to meet and set forth what we want. There was public comment prior to a number of board on opening up the Audit Committee to true members of the community who are valid and we are not going to move forward on that as we need to have our third Board member here to weigh in.

Trustee Schmitz said that this ties back to the charter and that there are things spelled out in there and clarifying who is a voting member, etc. We can clearly identify the skills that are needed as it is really important and it would be a positive step for the community and the Audit Committee.

Trustee Callicrate said he agrees that it does go back to the charter and getting our feedback and working with the Interim District General Manager to get all that integrated. We have the basics from tonight and we can continue this until the next Audit Committee meeting when our Chair is present and when we have our next meeting.

Interim District General Manager Winqest said that EideBailly has already agreed to meet with the Audit Committee.

Trustee Schmitz said it would be great and helpful and help with time if we get together our questions as she knows that there are some working papers that we haven't had a chance to review and that there were comments made that the Auditor and Staff did address the comments from the public as it would be helpful to know what the answers were to those questions.

Trustee Callicrate said he agreed as he doesn't want to waste time and he does want to have a productive session with the auditors.

Trustee Schmitz said we don't have a report from a task of work that the auditors did that was related to punch cards that we were billed \$4,200 for as they didn't produce a report but we can request the working papers from the Auditor which would bring clarity to the public.

Trustee Callicrate said we will be having an opportunity to have questions and distill it down, absorb it, and then when we meet, it can be productive.

Interim District General Manager Winqest said that he agrees and that the Audit Committee needs to be extremely specific so they, the auditors, are spinning their wheels. Focus on the scope of work for the internal controls

audit and sift through the concerns as some are philosophical and some are based on data so please be specific.

Trustee Schmitz said so the task for us is to put together, as an agenda item, the questions.

Trustee Callicrate said our next item is to set the date and time for our next meeting to ensure that we will have some time to put together the agenda. What time frame is reasonable – he doesn't want to rush into it as we need the appropriate time to make the best sense and do what is the least expensive.

Trustee Schmitz asked what the availability was of EideBailly. Interim District General Manager Winqest said he didn't know but that they are ready and willing and they are waiting for us to give them a general idea and then a time frame. We need to get this done but we don't want to rush it and that a lot of what we are going to them for will be implemented during the next twelve months so we have a little bit of time as we need to make sure we get it right and get the information that you want.

Trustee Callicrate said he sees two situations – questions from the last CAFR so we don't have those gray areas come up again and then our scope of work for the next audit. We have to do these at the same time because it is important for them, going into the next audit, to know our concerns we have as a Board, community, etc. We don't want to wait until next fiscal year and then look back and say we should have done x. He is sensitive to the timing and knows we need to act sooner rather than later.

Trustee Schmitz said that she is understanding the same thing and that is set up a meeting with the auditor to have specific questions addressed relative to the CAFR, address the community concerns, and obtain the \$4,200 report as opposed to defining a scope of work for the internal controls project.

Interim District General Manager Winqest said there are two different aspects; one is having them answering the questions, in detail, from the letter to the State and then giving them those questions and having them tell us how long that would take and what it would cost which he would call Phase 1. Then Phase 2 is developing a scope of works for the internal controls audit.

Trustee Callicrate thanked Interim District General Manager Winqest for a better distillation.

Trustee Schmitz said she would like to distill it down to our specific questions and concerns and that some statements were rather broad in nature so we need to be more clear and specific and hopefully we can move this along quickly.

D.6. Set the date/time for the next Audit Committee Meeting

Trustee Schmitz suggested the first week of March 4 and noted that we can meet in the Boardroom if it is available. Interim District General Manager Winqest said we have Livestream and that either facility is fine. He would like to, before the next meeting, get back to you about the two specific scope of works and answer the questions about the 2018/2019 CAFR so we have a broad outline if we hire them for the internal controls audit. Trustee Schmitz said this is worth a discussion and we should work on the charter and get the questions together for EideBailly. Interim District General Manager Winqest said that we need to meet to discuss the charter and then meet with the Director of Human Resources on the whistleblower item.

E. APPROVAL OF THE MEETING MINUTES (for possible action)

E.1. Minutes of December 11, 2019

Trustee Callicrate said that none of us were involved in this meeting so how do we approve these minutes. District General Counsel Menchetti said because neither of you were present, you can't approve them because you weren't there. District Clerk Herron said that she hasn't received any changes from either Trustee that was present.

Trustee Callicrate, hearing no objections from Trustee Schmitz, said that the submitted minutes are accepted as presented.

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

Linda Newman said that Margaret Martini's written statement isn't included within the presented minutes. She would suggest reaching out to the community about the charter and that she would like the Audit Committee to get ahold of the working

papers as we all need to know what the key policies are to make the representations to the auditors. Since a lot of questions were generated by the community, she is hopefully that the Audit Committee can have a community member on the committee that is familiar with the GASB's and NRS' present when you connect with the Auditor.

Derrick Aaron said he wanted to comment on two things – the RFP process and the other has to do with documenting the procedures. The RFP process is to select a professional firm so that is a policy decision to make and that in his experience, with professional firms, it is done with an interview process. When he was a part of a team, that is what they did and it was about conducting a working capital study. They found three different firms and invited them into their offices and spent a whole week interviewing them. He does understand that the RFP process can be a timely and costly process and if that is something of a concern then an RFQ is not a bad idea as it can be used in the public arena along with an RFP. When you were talking about documenting procedures, it is really vital to running an efficient business so go back and look at the implementation for your current system as it is likely, if you used a consulting firm, they may have created a baseline document for training which could be a jumpstart. The third thing is that he earned his CPA in Illinois and he has a white paper which he offered up for the Audit Committee to review. He said it was helpful in selecting an audit firm. This is his only copy so he does need it returned to him.

Mark Alexander said that he applauds your attorney's comment regarding having forty-five years of experience. He comes from managing the acquisition process and hiring and letting the contracts or purchases. It has been his experience that there is a way of getting through the process quickly and shortly and that is that it is readily available in the public domain. There should be a wealth of information to come up with what we are interested in and then include those contractors that perform those services. Further, there are others who use audit firms, reach out to them. You can also do a Google search to come up with something. He is advocating that we really need to be fiscally wise and tender or get competitive interests because the process of doing sole source doesn't allow us to get the right person and it is not necessarily always about using the lowest bidder.

G. ADJOURNMENT

The meeting was adjourned at 5:27 p.m.

Respectfully submitted,

Susan A. Herron
District Clerk

Attachments*:

*In accordance with NRS 241.035.1(d), the following attachments are included but have neither been fact checked or verified by the District and are solely the thoughts, opinions, statements, etc. of the author as identified below.

Submitted by Linda Newman (1 page): February 12, 2020 IVGID Audit Committee Meeting Public Comments by Linda Newman – To be included with the Minutes

February 12, 2020 IVGID Audit Committee Meeting
Public Comments by Linda Newman – To be included with the Minutes

Simply stated, the primary purpose of a local government's audit committee is to provide oversight of the financial reporting process, the audit process, the District's systems of internal controls and compliance with all laws and regulations. To ensure the efficacy of our audit committee, I believe that the County's charter is an excellent template along with the guidelines provided by the Treadwell Commission. I would strongly recommend that this Committee expand the membership to a total of six members. Three of those members should be independent of the Board and staff. Each should possess technical accounting, auditing or financial management expertise. Individuals should also have an understanding of our District's Utility, Community Services and Beach operations. I also recommend that the Committee be given the authority to engage independent counsel as well as other advisors in addition to recommending and working with the external auditor.

Due to the statutory deadline of March 31st, I would recommend that the District continue the engagement of Eide Bailly for the final year of their term. An RFP for 2021 and successive years with a new auditing firm should be undertaken as soon as possible. I strongly urge this Committee to engage the services of an independent auditing firm to audit the District's current internal controls and make recommendations for improvements. As we do not have an internal auditor, I would also suggest that the Committee engage an internal auditor as a consultant to oversee the efficacy and compliance with the District's internal controls –once these controls have been established.

As there are a number of unresolved accounting, reporting and disclosure issues in the District's 2019 CAFR I request that the Audit Committee immediately undertake the recruitment of independent members to assist in reconciling these issues with Eide Bailly as well as Senior Management.