

## MEMORANDUM

**TO:** Audit Committee

**FROM:** Paul Navazio  
Director of Finance

**SUBJECT:** Review and discuss possible next steps on possibly outstanding accounting and financial reporting matters identified by the former Audit Committee and through past Correspondence, as well as discuss process for addressing future matters brought before the Committee. (Requesting Committee Members Mick Homan and Chris Nolet)

**DATE:** March 30, 2023

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### **I. RECOMMENDATION**

It is recommended that the Audit Committee review and discuss possible next steps on potentially outstanding accounting and financial reporting matters identified by the former Audit Committee and through past correspondence, as well as discuss process for addressing future matters brought before the Committee.

### **II. BACKGROUND**

This agenda item is a follow-up to a report presented to the Audit Committee at their meeting of February 7, 2023 which provided a summary of potential matters identified by the former Audit Committee, as well as selected matters from Correspondence received by the Committee.

In considering the report, the Audit Committee's discussion focused on two general areas:

- 1) Disposition- How best to evaluate each of the potential matters and determine what follow-up action(s), if any, are warranted, with specific recommendations to be forwarded to the Board of Trustees.
- 2) Process – The Committee also discussed the need for a formal process to review and consider matters brought to the attention of the Committee to ensure that these matters are a) evaluated, b) follow-up actions tracked, and c) brought to timely closure. In this preliminary discussion, the Committee identified the need to distinguish between matters brought

to the Committee's attention through formal agenda items (either by management, the Independent Auditor, the Board of Trustees and Audit Committee members), and matters received by the Committee through correspondence (members of the public).

Following the discussion, the Audit Committee reached a general consensus to designate one member of the Committee (Mick Homan) to work with staff to review the list of potentially outstanding matters and return to the Committee with additional information and a framework for the Committee to consider possible recommendations, where appropriate, to bring closure to each matter.

Additionally, it was noted through Public Comment and Committee member input, the list of outstanding matters presented in the February 7<sup>th</sup> report may not have represented a complete list of matters warranting review by the Committee through this process.

Since the meeting of February 7<sup>th</sup>, two new members have been appointed to the Audit Committee to fill vacancies. Specifically, at their meeting of February 8, 2023, the Board of Trustees appointed Trustee Schmitz to fill a vacancy created by the expiring term of Trustee Tonking, and Mr. Chris Nolet was appointed to fill the vacant At-Large position (created by Trustee Tulloch's re-appointment to the Committee as a Trustee).

New Committee member Nolet subsequently offered to work with Committee member Homan and staff on this follow-up report, with the first order of business being to review the list of outstanding matters and identify any that warrant adding in order to ensure a comprehensive list for review and disposition. Mr. Nolet and Mr. Homan then held a series of meetings with management to review the list of matters, and consider a framework within which to evaluate each matter and develop preliminary recommendations for consideration by the full Committee.

A number of the matters have been previously addressed, or deemed, by either the Audit Committee or, in some cases, the Board of Trustees to not warrant further action. Nonetheless, they are presented herein for background information purposes as a number of these same matters are recurring topics brought to the attention of the Audit Committee. As such, the Audit Committee may wish to recommend follow-up action, as deemed appropriate.

Attachment A to this memorandum provides an updated summary of potentially outstanding matters identified through this process (including matters that appeared on previous Audit Committee agendas, as well as through general correspondence).

The summary is presented in (roughly) chronological order, with matters identified as pertaining to one or more of the following categories:

- Capitalization of Fixed Assets – includes matters related to application of generally-accepted accounting principles, applicable Board policy, and Moss Adams recommendations.
- Financial Reporting / Annual Comprehensive Financial Report (ACFR) – includes matters raised related to the information provided in the District’s Annual Comprehensive Financial Report. May include questions about financial statement, Notes, or Supplemental Information contained in the report(s).
- “Other” – includes matters that do not impact the financial statements contained in the District’s formal financial statements (examples include disclosures, and presentation of information).
- Moss Adams Recommendations – stemming from recommendations provided through three separate consulting engagements, most notably an *Evaluation of Certain Accounting and Financial Reporting Matters*.

For each matter identified, the summary table provided in Attachment A also identifies, where applicable, a potential stated dollar impact (or estimate), and whether the dollar impact is deemed “material.”

*Process for the Audit Committee to address matters brought to its attention*

The Committee is requested to discuss and provide direction on establishing a formal process of handling matters that are brought to its attention through correspondence. A proposed process would include:

- 1) Which items should be referred to management and/or independent auditor for review;
- 2) Possible assignment of an Audit Committee liaison to work with management and/or independent auditor to analyze matters so referred,
- 3) Return to full Audit Committee with report and recommendation on follow-up actions, if any.
- 4) All matters brought to the attention of the Audit Committee should be logged and tracked for timely resolution/disposition.

**III. ATTACHMENTS**

- A. Summary Table - Matters Identified by Former Audit Committee and ongoing Correspondence.

**SUMMARY OF MATTERS IDENTIFIED BY AUDIT COMMITTEE AND CORRESPONDENCE**

As of March 30, 2023

Matter #		Capitalization of Fixed Assets	Financial Reporting ACFR	Other	Potential Impact on Financial Statements	Material (Y/N)	Preliminary Audit Committee Observations
<b>AC Meeting agenda items:</b>							
	o Meeting Date: 2/7/2023						
	Item D.4. - Possible Follow-up action on Correspondence						
1	12/14/2022 Audit Finding (Nolet)			x			
2	D.4.a 1/9/2023 Observations and potential corrections to ACFR for June 30, 2022 (Dobler)		x				
3	D.4.b 1/14/2023 Lack of FULL disclosure in Note 18 of the ACFR FOR FISCAL YEAR ENDING JUNE 30, 2022 and false approval of contracts to avoid requirements under NRS and Board Policies (Dobler)		x				
4	D.4.c 1/21/2023 Unauthorized change in reporting from fiscal 2021 to 2022 for the Community Services venues (Dobler)		x				
5	D.4.d 1/23/2023 Item E.3A - Report - Facilities (Weddings and Events) - Multiple errors or lack of complete information - Board Packet 12-14-2022 (Dobler)			x			
6	D.4.e 1/30/2023						
7	D.4.f 1/31/2023 Follow-up on my memo on January 9, 2023 - Investment Earnings 2022 fiscal year ACFR (Dobler)		x				
	Violation of GASB #34 - Improper Reporting of Internal Services Fund as part of Proprietary Funds 1) Statement of Net Position (Exhibit B), 2) Statement of Revenues Expenses and Changes in Net		x				
	o Meeting Date: 4/13/22						
8	D.3 Effluent Pipeline (Dobler)	X					
9	D.4 Golf Courses (Dobler)	X					
10	D.5 Claims Payable (Dobler)		X				
11	D.6 Expensing Net Costs (Dobler)		X				
12	D.7 Note 22 (Dobler)	X					
13	D.8 Burnt Cedar Pool (Dobler)						
	o Meeting Date: 6/1/22						
14	D.1. Water and Sewer Pump Station Improvements (Dobler)						
		X					
15	D.2. Wetlands Effluent Disposal Facility (Dobler)	X					
	D.3. Management Response to ACFR (Management)		X				
See #12	D.4 Note 22 - Prior Period Adjustment (Dobler)						
			X				
16	D.5. Accounting and reporting of Facility Fees (Dobler)		x				
	o Meeting Date: 6/16/22						
17	D.2. Wastewater Treatment Plant Improvements (Dobler)	X					
18	D.3 Burnt Cedar Water Disinfection Plant (Dobler)	X					
	o Meeting Date: 9/28/22						
19	D.6. Correspondence Wastewater Treatment Plant Improvements (Dobler, 7/10/22)	X					
<b>Correspondence from Mr. Cliff Dobler</b>							
See #19	Date: July 10, 2022 - Wastewater Treatment Plant Improvements	X					
20	Date: August 15, 2022 - Charge off: Capital asset costs 2021 ACFR	X	X				

**SUMMARY OF MATTERS IDENTIFIED BY AUDIT COMMITTEE AND CORRESPONDENCE**

*As of March 30, 2023*

Matter #	Capitalization of Fixed Assets	Financial Reporting ACFR	Other	Potential Impact on Financial Statements	Material (Y/N)	Preliminary Audit Committee Observations
<b>Correspondence re FY2021/22 ACFR</b>						
o Dobler Correspondence:						
See #2		X				
	Date: 1/9/23 – Observations and Potential Corrections 2022 ACFR					
See #3		X				
	Date: 1/14/23 - Lack of Full Disclosure in Note 18 of ACFR					
See #4		X				
	Date: 1/21/23 – Unauthorized Change in Reporting					
See #6		X				
	Date: 1/30/23 – Investment Earnings					
See #7		X				
	Date: 1/30/23 – Internal Service Funds					
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<b>Additional Memorandums identified by Mr. Dobler:</b>						
<b>AC Meeting agenda items:</b>						
o Meeting Date: 6/9/21						
21			X			
	E.4.a Funding Public Parks from the General Fund (memo 4/4/21)					
22		X				
	E.4.b Cash Position of Utility Fund (memo 5/9/21)					
23			X			
	E.4.d Close-out of MOU with Incline Tahoe Foundation					
24			X			
	E.4.g Review, discuss and recommend that 89 parcels acquired from Washeo County be updated (public purpose restriction, assets of CS fund) - memo 6/1/21					
o Meeting Date: 11/19/20						
25	X					
	D.7.c. Air Pressure Release Valve					
<b>Correspondence from Mr. Cliff Dobler</b>						
26	X					
	Date: June 30, 2020 - Effluent Pipeline Costs FY2019 and FY2020					
27	X					
	Date: November 23, 2020 - Meters and Equipment Costs Charged to Effluent Pipeline					
28	X					
	Date: February 14, 2022 - Rebuttal to February 9, 2022 statements made by Paul Navaio, Director of Finance regarding accounting and reporting operating expenses in Capital Project Funds					
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• <b>Moss Adams Report Recommendations</b>						
o AC Meeting 4/13/22 - Item D.2 – Moss Adams Recommendations						
1			X			
	Account and report on central services cost allocations using an Internal Services Fund with a detailed schedule of individual expenditure line items to be allocated.					
2						
	Cease using contra-accounting (punch card accounting) within Community Services effective July 1, 2022.					
3			X			
	Reflect revenues from the Facility Fee within each activity/fund/cost center at the time of budget adoption.					
4			X			
	Report the Facility Fees as nonoperating revenue in the statement of revenues and expenses, as non-capital related financing activities section in the statement of cash flows and as program revenue in the statement of activities.					
5			X			
	Modify the newly updated capitalization policy to include the following:					
a.		X				
	The different stages of a project and the types of costs incurred in the different stages.					
b.		X				
	The accounting treatment of costs incurred in the different stages.					
c.			X			
	What elements or criteria need to be met for expenditures associated with a repair project to be eligible for capitalization based on the concept of service capacity in addition to the extension of useful life of an asset.					
o Board Meeting of 6/29/22 – Item H.5. - Status Report on Moss Adams						