

## MINUTES

### **AUDIT COMMITTEE MEETING OF DECEMBER 19, 2020 Incline Village General Improvement District**

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chairman Matthew Dent on Wednesday, December 19, 2020 at 12 noon at the Boardroom located at 893 Southwood Boulevard, Incline Village, Nevada. This meeting was conducted virtually via Zoom.

#### **A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS\***

On roll call, present were Matthew Dent (Trustee, Chair), Cliff Dobler (At-Large Member), Sara Schmitz (Trustee), Raymond Tulloch (At-Large Member). Derrek Aaron (At-Large Member) was absent.

Also present was Staff member Director of Finance Paul Navazio.

There were no members of the public present (State of Nevada, Executive Directive 006, 016, 018, 021, 026, and 029).

#### **B. PUBLIC COMMENTS\***

Linda Newman said welcome Jim! Thank you for sharing your weekend with us. I would also like to express my gratitude to Audit Committee Chair Dent and Trustee Treasurer Schmitz for exercising leadership to secure the independent expert resources our District requires to evaluate the District's contested accounting and reporting practices. Our community appreciates every member of this Committee for volunteering your time, energy, efforts and talents to improve Board oversight and establish financial accountability. Everything you do improves our District's governance and performance. For more than five years, Mr. Dobler and I have documented the District's improper accounting and reporting practices. We have made every attempt to get the previous Audit Committee, Senior Management and the Auditor to take corrective action. With the exceptions of our reports requiring restatement of the 2016 CAFR and requiring prior period adjustments in the 2019 CAFR to reverse the improper transfers between funds which violated Nevada statutes, we were met with silence or outright denials. As a consequence, false and misleading financial information has been provided to the State, the Board, our citizens and our lenders for the past five years. The Moss Adams Draft report and their expected redlined corrections evaluating four key accounting and reporting concerns is a first step toward acknowledging that the District's accounting and reporting practices are wrong and need to be changed. We were glad to see Moss Adams also confirmed the inaccurate reporting in the Government wide Statement of Activities which was another key report which we

provided There remains additional reports on improper reporting and disclosure in past CAFR's which we hope will be reviewed by Moss Adams. The next step is to implement those changes, address all outstanding accounting and reporting issues and put all of this behind us. As we look to a brighter future, may you all enjoy a healthy and happy Holiday Season and an exceptional New Year!

Audit Committee Chairman Dent said thank you to Staff for taking time out of your schedule on Saturday as well as the Audit Committee members present.

**C. APPROVAL OF AGENDA (for possible action)**

Audit Committee Chairman Dent asked for any changes; none were made so the agenda is approved as submitted.

**D. GENERAL BUSINESS ITEMS (for possible action)**

**D.1. Review, discuss, and provide feedback regarding the Moss Adam's DRAFT Report addressing concerns as it relates to evaluation of certain accounting and reporting matters (Presentation by Moss Adams Auditor Jim Lanzarotta)**

Audit Committee Chairman Dent gave a brief overview of how we got to where we are today and laid out the format for today's meeting. Audit Committee Chairman Dent confirmed that each Audit Committee Member had a chance to discuss the draft report with Mr. Lanzarotta prior to this meeting. Jim Lanzarotta, from Moss Adams, gave his presentation in which he confirmed he has spoken to most of the attendees. Mr. Lanzarotta said he has prepared a redlined version which he will be sharing today.

**Enterprise fund reporting for recreational activities**  
**Starting on agenda packet page 8**

Audit Committee At-Large Member Dobler thanked Mr. Lanzarotta for spending three and a half hours with him the other night going over this document. Audit Committee At-Large Member Dobler then made several observations regarding the topic to which Mr. Lanzarotta responded. Audit Committee At-Large Member Tulloch made several observations about full accrual accounting as well as capital project accounting to which Mr. Lanzarotta responded. Audit Committee Member Schmitz discussed observations regarding meeting a 20% requirement as well as asked questions about revising past CAFR's. Mr. Lanzarotta responded.

**Central Services Cost Allocations**  
**Agenda packet page 13**

Mr. Lanzarotta began with an overview. Audit Committee Member Schmitz asked a question about identification of items by our external auditor. Audit Committee At-Large Member Dobler made several observations about not abiding by the law. Mr. Lanzarotta responded. Audit Committee At-Large Member Tulloch asked about interfund charges; Mr. Lanzarotta responded. Audit Committee Member Schmitz asked a question about the NRS and how it addressed central service cost allocations for one type of fund but not another. Mr. Lanzarotta responded.

**Punch Card Accounting**  
**Agenda packet page 23**

Mr. Lanzarotta began with an overview. Audit Committee Member Schmitz asked if our external auditor should have identified that the financial reporting was unusual and that our policies might be lacking in clarity; Mr. Lanzarotta responded that it could have been because of dollar values not being material and just because something is unusual it doesn't make it wrong. Audit Committee At-Large Member Tulloch made several remarks about capitalization and Mr. Lanzarotta stated that he did not research the Effluent Export Pipeline project and provided explanation on the various remarks made. Audit Committee At-Large Member Dobler also made several remarks regarding capitalization and expensing items to which Mr. Lanzarotta provided a response.

**Punch Card Accounting**  
**Agenda packet page 18**

Mr. Lanzarotta gave an overview. Audit Committee At-Large Member Dobler made several comments regarding funds and transfers.

**Next Steps**

Audit Committee Chairman Dent said with the time remaining that he would like to have a discussion about what the next steps are. He sees that we need to have further evaluation, we have all been very vocal about our policies and them being poorly written. Should the current auditor have caught these; he thinks they should have and that this has been going on

for five years. The question is how do we move forward and what are the next steps. Audit Committee At-Large Member Dobler said that he and Ms. Newman have submitted 24 points and we have done 4 of those points but that we don't know the resolution of the remaining 20 points so he would like to know about the remaining 20 points and that he would suggest expanding Moss Adams scope of work to look at those 20 points. Audit Committee At-Large Member Tulloch said that he sees two aspects – first is number one is to stop the bleeding and get things moving forward so the most pressing thing is to move to enterprise fund accounting and get that achieved for 2021/2022 going forward. The other one is capital expenditures and, in reality, the only place to capitalize is in the Utility Fund. The other funds are cash and should be expensed. He agrees that there is a lot of work to be done and that there are things to fix going forward and that if we can find the time, we can fix the older items. Audit Committee Member Schmitz said that she is glad to hear that the team is doing change and that she sees a four pronged approach – the first is to continue to make adjustments and corrections for this year's CAFR; second, enlist assistance of Moss Adams to help us to fine tune our policies and do so with understanding of best practices; third, Audit Committee Chairman Dent and Director of Finance Navazio to work with external auditor to see if any action is needed from the past; and fourth, enlist the services to Moss Adams to review the other concerns. Audit Committee Chairman Dent said he agrees with all comments made and knows that Staff is working on making changes and appreciate those efforts. There are several things we need to tackle – policies, not the first one. Trying to figure out the other 20 points, believe we have the authority to expand their scope through the District General Manager so we can expand that. The first thing that needs to happen is to correct the wrongs of the past. He would like to ask that one of the Audit Committee members draft up a scope of work and then we want to hire Moss Adams or someone else to help with us the policies and that should be the focus on the Board. Audit Committee Member Schmitz said she wanted to be more specific about policies as she was not trying to do a broad brush but focus on policies on capitalization to get some clarity on that one. Audit Committee At-Large Member Tulloch said he agrees with Audit Committee Member Schmitz as it is the Board's responsibility and the Audit Committee needs to make a strong recommendation and the fact that Moss Adams is familiar, he would suggest adding to the Moss Adams scope of work for proforma policies. Audit Committee At-Large Member Dobler said he went through the other 20 points and there are 8 that are huge. One of them has to do with compliance of Board policy, in talking with Jim for 3.5 hours, and correct him if wrong, what is so badly needed is policies regarding

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commitments. He was told we are doing resolutions to commit funds but he doesn't know where they are. Our biggest and strongest weakness, and not done by management, is good policy. It has got to be a separate one and need a company to do that for us as we have been talking about it for quite a while. Mr. Lanzarotta said it seems to him and he is just providing some advice, based on what he is hearing, put the 20 points in buckets and the buckets that have to do with notes and reports, get a firm that will have the technical chops and discuss some room for improvement and that should get taken care of with your new auditor. Then there is a bucket that is a change to financial statements. Financial policies are an area of concern and should be tackled. Some of them should be taken care with next auditing firm and your Director of Finance is probably going to address. Audit Committee Chairman Dent said that some of the 20 points are going to be addressed as he has discussed them with Director of Finance. District General Manager Winqest said that he agrees with the recommendations made and Staff is not being resistant to this as a lot of this was expected. He has made it clear that he was ready to move back to enterprise fund accounting and the main thing on this was to get past the point that the District was doing something illegal. Still have questions on capitalization which we can address offline. On additional scope, we didn't budget for this, so he will want to make sure that Staff will be covered and will be talking to legal counsel. We need to have the full Board of Trustees weigh on this additional scope and likes the idea of putting the 20 points into buckets. Thank you to all and want to put all of this behind us. Director of Finance Navazio said thank you to all and asked if there was a desire to close this scope of work? He also reminded this committee there are two other things to keep in mind – anticipate having CAFR ready for their next meeting and then to the Board at the end of January and also are in the process of reviewing proposals for new audit firm. The District has received three proposals that this committee will be reviewing in January and a recommendation will go to the Board in February and award in March and figure out how that works with this work and any future work by Moss Adams and keep everything moving forward. Audit Committee At-Large Member Dobler said the Moss Adams report was not to determine illegality and legality as that can only be determined by the courts. Audit Committee Member Schmitz said so the next step is the report being finalized and presented to the Board of Trustees, do we have that scheduled? Audit Committee Chairman Dent said no as he wanted to give this feedback to Moss Adams and make sure there was nothing wrong and the next step is for Moss Adams to come forward with his final report and then send to the Board of Trustees for their review. The Board of Trustees tasked us with

looking at 20 points. Audit Committee Member Schmitz asked if you can share the redlined report with the Audit Committee and then get it back to you? Director of Finance Navazio asked Mr. Lanzarotta if he got what he needed to finalize the report as it is important to have a clear path. Mr. Lanzarotta said he has what he needs, is very impressed with the accounting knowledge, and that he will read it over one more time and confirmed that it is appropriate to send it in redline version. Audit Committee At-Large Member Dobler said regarding punch card accounting, there are two critical footnotes in the financial statements that are not addressed which he thinks are critical because when transferring between two separate funds, it is important to be disclosed what was happening. Unless it is in the report, you don't think that is appropriate. Mr. Lanzarotta said what was transferred was transparent and that he didn't have time to look and compare with financials versus the budget so he didn't finish that and he suspects there is not a huge difference between those so he is not sure where to go with that. Audit Committee At-Large Member Dobler said he would like to talk more offline. Mr. Lanzarotta said he understands, from a policy standpoint, but doesn't know where to go with it. Audit Committee Chairman Dent said Audit Committee At-Large Member Dobler can follow up with that offline.

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

**E.1. Audit Committee Meeting Minutes of November 19, 2020**

Audit Committee Member Schmitz said that the meeting minutes need to be updated as she feels we need to understand who was asking the questions so she has requested that section to be updated. Audit Committee At-Large Member Dobler said at the end of page 13, agenda packet page 40, he said he didn't know what they meant as he didn't challenge anything. Audit Committee Chairman Dent asked Mr. Dobler to get with the District Clerk and make his changes and then he said that the meeting minutes of November 19, 2020 are approved as revised.

**F. PUBLIC COMMENTS\***

Linda Newman said this has been an excellent meeting and she has a couple of comments; first, she supports most of Moss Adams recommendations along with those proposed by Trustees Dent, Schmitz, Mr. Dobler and Mr. Tulloch. Mr. Dobler and I will be providing Moss Adams with a revised memo of their draft review of the punch card accounting and provide some additional material and clarification.

She would also like to that the District may be considering bonding for the Utility Fund and the beaches and shouldn't there be the impetus to restate the financials so that we have a green light with future bond underwriters? Also, the current policies have been written by management staff and the Board has historically rubber stamped these less robust policies. She recommends that the outside consultant, whether it is the new independent auditor or another independent firm be brought in to execute viable, clear and more robust policies for management to follow and the Board to oversee. There was a statement made by Jim about the Department of Taxation somehow being an enforcement agency, however, they are really not. They rely upon the opinions of the independent, external auditor and rarely, if ever, get involved in an enforcement of inaccurate or incorrect information. The same is true for when the District submits their budget. The Department of Taxation focuses on the law and the forms being accurately completed. They don't historically verify the accuracy of the information. She also wants to raise the issue of the lack of internal controls. It remains the fault lines in having a solid foundation in moving forward and she once again requests the engagement of an independent expert to develop the District's internal controls. Merry Christmas and Happy New Year to all.

**G. ADJOURNMENT (for possible action)**

The meeting was adjourned at 2:47 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.