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AUDIT COMMITTEE MEETING OF AUGUST 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, August 19, 2020 at 4:00 p.m. 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), and Raymond Tulloch (At-Large Member). Derrek Aaron (At-Large Member) was absent from roll call but joined the meeting at 4:15 p.m.

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 and 018 and 021).

B. PUBLIC COMMENTS*

Dick Warren said regarding District Fund Balances, at the Board meeting on August 12, 2020, it was quite apparent that his public comments concerning the District Fund Balances were totally ignored. The Board proceeded to unanimously approve Staff's recommendations, even though some of the background information that Staff provided was just totally false. So the Board is ignoring the fact that Board Policy 7.1.0 & Board Practice 7.2.0 are not being adhered to; that is, the Board is refusing to bring certain funds, like the General Fund and Community Services Fund, to their required appropriate amounts. The Board is continuing to allow these funds to maintain excess funds above the appropriate balances required. Since the Board has decided to ignore this, then the only reasonable thing to do is to return these excess funds to their rightful owners, and that would be the parcel owners. As the Audit Committee, you have a fiduciary responsibility to require the Board to return these funds to the parcel owners. Will you be making this recommendation? Audit Committee Agenda Item D.2 – General Business – Liaison to Eide Bailly, he highly recommends Cliff Dobler to be the Audit Committee liaison with Eide Bailly. Certainly others are qualified for the position, but Cliff's extensive dealings with IVGID's financials over the past several years uniquely positions him to assume this role. And no, the alternative suggestion that the Director of Finance assume this role is not a good idea, period. Audit Committee Agenda Item D.3 – General Business – IVGID's System of Internal Controls he has said this before, IVGID has no documented internal controls, okay? They didn't have them 6 months ago, what makes you think they are there now? And if you allow the Finance Director to be the point person on this

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agenda item, you won't have them 3 years from now. Just go get an outside expert to come in and assess the situation at IVGID. This is not rocket science, but you do need competent resources to get this done.

Linda Newman said over many years our citizens have provided evidence of the District's improper and unlawful accounting and reporting practices. These abuses of the public trust range from the failure of management to properly account and report the Community Services and Beaches as Enterprise Funds to comply with GASB Statements thru the undisclosed and unlawful transfer of funds to the Beaches from the funds collected for our Recreational venues through the ruse known as "punch card utilization." These practices not only violate Nevada law which requires our financial statements comply with Generally Accepted Accounting Principles, they deceive every reader of our CAFRs. After years of denial and invalid management representations to our auditor and the Nevada Department of Taxation, these assaults upon financial and operational accountability and transparency must end. She respectfully requests this Audit Committee recommend the engagement of an independent accounting expert to review these contentious issues and render an independent opinion. As for the District's internal controls which Staff has previously referenced to the lack thereof and former Trustee Audit Committee member Wong acknowledged that they were unwritten -- this Board packet validates that there aren't any for this Committee to review. Instead, you have been provided an undated Table of Contents for Policies and Procedures for Accounting and Financial Controls. Another set of table of contents without the contents are also included for the Purchasing Procedures and Personnel Policies. As she stated at the last Audit Committee meeting: "No public or private entity can responsibly operate without internal controls and financial statements cannot be properly prepared without an effective framework. The Board has appropriated funds for an independent consultant to assist. She highly recommends that this resource be engaged immediately." Further delay is not an option. The time for action is now.

Mike Abel said challenges by our citizens has shown that IVGID's accounting is replete with incorrect, incomplete or inaccurate information. Today's packet is no exception. Staff asserts their opinion that the District's accounting and reporting is in compliance with Nevada Law and Regulations and that our reports do not require restatement. This is their opinion without the credentials or the facts to back up their opinion. With a \$45 million plus budget why is there no one on Staff that is a licensed CPA in the State of Nevada. IVGID's screwed up numbers have surely been validated at the Cheech and Chong accounting service or perhaps by Bernie Madoff's own book keeping team. IVGID must engage independent credentialed accounting experts to review the 21 points of contention in the 2019 CAFR, as well as retaining outside experts for the development of effective internal controls. If you need one more reason, look at the track record of our citizens in compelling

the District to take corrective action after they identified the District's violations their own policies and Nevada Law. Here are six examples:

- 1) Restatement of the 2016 CAFR and the Auditor's identification of the District's deficiency in internal controls.
- 2) The retroactive reversal of unlawful transfers from the Internal Services Fund to the Community Services, Beach and Utility Funds.
- 3) The necessary re-establishment of the Community Services and Beach Capital Projects and Debt Service Funds to comply with the Board Resolution.
- 4) The Board now restricting more than \$11.5 million that was specifically collected for the replacement of the 6 miles of failing effluent pipeline – so that it could not be repurposed to cover operating expenses and other pet staff projects like Staff's turn around at the Sweetwater Road facility.
- 5) The rewriting of the Central Services Cost Allocation Policy.
- 6) The necessary engagement of an independent firm to review irregularities in multiple Utility Fund Capital Project procurements.

Just this week, we find that IVGID paid Terracon over \$10,000 for work product that was not delivered. How many more crap sandwiches is staff going to deliver to the public? We need internal controls NOW and we need one member of the audit committee to review every check run and EFT with authorization to "Hold" up any non-payroll payment for irregularities or Board attention.

Margaret Martini said our State defines Internal Controls as "the mechanisms, rules and procedures implemented to ensure the integrity of financial and accounting information, promote accountability and prevent fraud. Internal control is a process designed to provide reasonable assurance that specific entity objectives will be achieved. Internal control is affected by the actions of individuals within the organization as well as policies and procedures." Our State also asserts that effective internal controls can help safeguard our assets, ensure records are accurate and complete, promote operational efficiency and effectiveness and encourage adherence to policies. The Internal Control Framework should include 5 interrelated components: Control environment, Risk, Control activities, Information and Communication and Monitoring. So, where are we? The manual provided by staff for accounting and financial control has no contents. The same is true for two other manuals that only provide the table of contents. A citizen requesting the written Internal Control policies and practices from the Public Records Officer and the General Manager has received nothing. A random review of correspondence received by the District demonstrates the lack of integrity of our financial and accounting information. The budgets our Staff presents to our Board do not comply with the Board's own policies and practices. The terms of Contracts and Memorandums of Understanding are not overseen for compliance. Vendors are paid in full although all deliverables were not received. The former Director of

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Finance sold, without Board approval, three unbuildable parcels designated as public purpose open space to private buyers. These private buyers were ineligible for beach privileges and the unbuildable lots allowed them to pay a Rec Fee and a Beach fee that would enable them to use our beaches, buy an unlimited amount of punch cards and resell the lot at any price to any other buyer. With this in mind, she asks: What other public assets have been sold? You get the picture. The District has no control environment, risk assessment, control activities, accurate information and communication, or monitoring. These grave deficiencies preclude our Trustees from fulfilling their fiduciary duties and are an open invitation to more errors and more fraud. The absence of effective internal controls undermine the integrity and ethical values of our organizational structure and devalue the veracity of our financial statements. Corrective action must be taken immediately and an independent consultant must be engaged.

Aaron Katz said he has some questions on the agenda item D.4., “*Review, discuss, and possibly take action*” on a series of communications. He doesn’t know what the committee is going to do to take action but he would like a clarification. Is the attorney part of this meeting, he hopes so and hopes he will listen. He has an issue with his conclusions on Dillon’s Rule on agenda packet page 156. It is almost there to give justification for what Staff has done – the three authorizations are all the same thing, NRS 318.180, no justification, all it says is the power to prescribe duties and what we are dealing with here is whether there has been a breach of duties, NRS 318.210 – all that says is that the Board has implied power. If one really follows Dillon’s Rule, those implied powers are specifically stated and if they aren’t specifically stated, they don’t exist and he is not telling you that. The only other authority is NRS 318.185 states that the Board has power to hire employees and to prescribe their compensation; has the Board prescribed that our employees can take our money and use it for their own rewards? Has the Board said that our employees can go on this screwy business travel which has nothing to do with our recreation? Has the Board said okay to employee celebrations because we are all here for employees, aren’t we? Well no, so none of this is authorization. The attorney is making it seem like all of this conduct is permissible, when he thinks we all know in our hearts that it is not permissible so what is the attorney really here for and what is this committee going to do? He should know, if he doesn’t know already, there are people in this community which know what the law is and know what Dillon’s Rule is. And they know that some of his suggestions here aren’t totally accurate and he thought the reason was to get accuracy. If there is a problem for the attorney, he should tell us. Don’t hear him saying anything is wrong or even questionable and he is interested to hear his comments about his letter which has different types of questions. Hope is he is there, hope he will discuss, and hope this committee does something. Thank you very much.

Frank Wright said he is a candidate for the Board and that he has a quick comment to make which is a community comment that is very vital to our community. We

have an election that is going to elect new Board members. He is looking for Board members who have the best qualifications and understand what is taking place within the walls of IVGID. When you have community members who feel that it is their job to go out and remove politic signs, which is illegal and we, as a community, should be above that, if you see that, please report it as it is just horrible and everyone has the right to be represented and have their signs put up and not taken down, he just thinks it is horrible. Audit Committee – he is not going to go over things but internal controls need to be addressed. Once in place, if it ever gets put into place, it will end a lot of speculation on a lot of things that are taking place. He doesn't know why it isn't in place already and why we don't have an outside consultant come in and look at our internal controls; just a no-brainer. We have some really smart people now on the Audit Committee, they know what they are doing, the need to know that the community is behind them and taking care of this internal controls issue would put an end to a lot of speculation of wrongdoing. He has a real problem with the lawyer as the information that has been provided and things that are happening and how the Board has been voting are not legal as they are outside the scope of what Boards can and cannot do especially when putting a project into Community Services that is isolated and not available to some in the community is just flat out wrong and to allow that to go forward at the last Board meeting, he is still shocked and that it wasn't restated and taken down because he said the money wasn't being expended; it should have been taken down right away. Couple of other questionable things – if you would get a governmental legal counsel that understands how governments should operate and how money should be spent and accounted for, this District would just fly and we would have no problems, everybody would be comfortable and things would go well. We have been under the umbrella of a very incompetent past legal team that just was a disaster and self-serving by the way and now we have a chance to change all this by getting representation that understands how government finances and operations should be working.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Dent asked for any changes. At-Large Audit Committee Member Dobler requested a flexible agenda because we have so much data. District General Counsel Joshua Nelson said that yes, the Audit Committee can do that but they can't add anything to the agenda. Audit Committee Member Schmitz said she would like to make sure we get to the issues on the CAFR and get that covered as well as Director of Finance's presentation on internal controls and that those two items should be on the top of our priority list to complete today. At-Large Audit Committee Member Dobler asked which one would be a priority; CAFR first and internal controls second. Audit Committee Chairman Dent said that the internal controls presentation is about 15 to 20 minutes and then proceed to discussion and that he feels like there is enough time as long as we are all on the same page.

Audit Committee Member Schmitz made a motion to have a flexible agenda. At-Large Audit Committee Member Dobler seconded the motion. Audit Committee Chairman Dent called the question and the motion was unanimously passed.

D. GENERAL BUSINESS ITEM (for possible action)

D.1. Review with Audit Committee, long range calendar (Requesting Trustee: Audit Committee Chairman Matthew Dent)

Audit Committee Chairman Dent said, on agenda packet page 2, he put all the agenda items he received from members which he categorized; he went over the items listed. Audit Committee Member Schmitz said that are a couple of things that were on our agenda that has dropped off – the reconciliation spreadsheet to which she has requested updates and hasn't been provided to the other Audit Committee members so she would like that added as a placeholder; have both internal and external processes for reporting issues – internal is whistleblower and external is having those sent to the Audit Committee Chair. Audit Committee Chairman Dent said did you want that placed on the IVGID website? Audit Committee Member Schmitz said that was the thought process and to also communicate with the employees and the public. It needs to get sent to the Audit Committee so it gets into our realm and then there is the public records piece, etc. District General Manager Winqest said that right now, as a status update, is that he is working with District General Counsel to make sure it works for the employees and then we will deal with the public records piece. We want to be fully compliant with how we are communicating this to our internal Staff and then we did discuss having something on the website. Presently, e-mails are going start to the Audit Committee Chairman. District General Counsel Nelson said he doesn't want to create a false expectation and that he wants to have a process so everyone understands the guidelines and guideposts. Audit Committee Chairman Dent asked when we will have a further update on the website for the external part of the process? District General Manager Winqest said that we need to figure out the internal piece first before we go with both of these pieces so possibly September or the next Audit Committee meeting. At-Large Audit Committee Member Dobler said on the fifth bullet point, the Moss Adams contract, this looks like they are doing a segment that has to do with contract management but it looks like the entire internal controls but really it is limited to a very small portion of the internal controls. We don't presently have an internal control contract as Moss

Adams is only doing contract administration so this is a little bit misleading. Audit Committee Member Schmitz said that is correct that it is limited and specific in its scope at this point. At-Large Audit Committee Member Dobler said so it is correct that we have no contract for internal controls yet? Director of Finance Navazio said that this bullet point collapsed related points that he is passing along and that as we work to review and bolster the internal controls with an internal work place, we may bring someone on to assist. Moss Adams is a subset of that both with an eye towards on how they were handled and then the lessons learned to help us identify areas. The purpose is to ensure we have internal controls on the agenda and that it wasn't intended that Moss Adams is doing all of that task. Audit Committee Chairman Dent said so this is a summary and that there could be some overlap. Director of Finance Navazio said as one point of clarification, bullets 3 and 4, clarify that we hope to have a draft of the 2019/2020 Comprehensive Annual Financial Report (CAFR) by the end of October and that we will need a meeting or a component in each November. On the process for the selection of a new Auditor, Staff will need to bring a timeline as the Board is required to appoint and select in March. The present Auditor was selected in February and they are starting this fall, which this committee is primarily responsible for, so we will start this fall and go through February.

D.2. Review, discuss, and possibly select an Audit Committee member to act as a liaison to Eide Bailly (Requesting Trustee: Audit Committee Member Sara Schmitz)

Audit Committee Member Schmitz gave an overview of the submitted material.

Audit Committee Chairman Dent said that the Audit Committee Chair, in the past, has been that liaison and that he had a call with Eide Bailly on Monday morning and that he spoke with two representatives about their ability to finish in a timely manner and that he discussed the concerns with that process that is moving along. To date, the liaison has always been the Audit Committee Chair and he is open to it being someone else. Audit Committee Member Schmitz said if this liaison is someone other than the current Audit Committee Chair, who signed the engagement letter as she doesn't know. District General Counsel Nelson said that he doesn't see any issues with that. At-Large Audit Committee Member Dobler asked, for review and approval, does it go to one person for approval or does it come to the entire Audit Committee. Audit Committee Member Schmitz said it does need to come back as this will not be the authority but rather just someone to be the single point of contact. Audit Committee Chairman Dent said that it all comes

back to the Board of Trustees for decision making. At-Large Audit Committee Member Aaron asked if there was any other sort of authority such as signing the engagement letter. Audit Committee Chairman Dent said that the engagement letter has already been signed. At-Large Audit Committee Member Aaron said so is this a liaison or is it the Audit Committee Chair in the future. Audit Committee Chairman Dent said it could be the liaison and that he didn't know if the policy addresses that. At-Large Audit Committee Member Aaron said that he just wanted to understand the policy as it should be documented clearly the signing authorities for the Chair and the liaison and that it would be helpful if we could update the policy. Audit Committee Member Schmitz said that she has made a note and that it has always been the Audit Committee Chair. Director of Finance Navazio said that Staff could bring this back and, as it has been said, this year's engagement letter has been signed. This year is the last year of a 5-year contract. As we bring forward the next contract, ultimately, it is the Board of Trustees that approves the award. It is tied to the contract that is awarded by the Board of Trustees and it is why the Trustees or Chair have always signed the engagement letter. Staff is fine with it being someone else but we should clarify that before entering into the next contract. At-Large Audit Committee Member Tulloch asked if it required delegated authority from the Board of Trustees? Audit Committee Member Schmitz said that the liaison doesn't have anything to do as the engagement letter has been signed. Audit Committee Chairman Dent said that yes, it has been signed, and he doesn't believe it went to the Board prior as this was the first year he asked for it go to the Board. District General Counsel Nelson said it is important to distinguish between this and the signing authority and that this is just about communication. Authority has to be delegated by the Board of Trustees. Audit Committee Member Schmitz said that At-Large Audit Committee Member Aaron is a certified public accountant and Audit Committee Chairman Dent has a lot of history and is the one who signed the engagement letter and that she feels comfortable with Audit Committee Chairman Dent fulfilling that role as it is a valuable resource for us as a committee and Staff. We need to keep this moving and keep the process going forward. We need to be sure we are facilitators in getting things done. At-Large Audit Committee Member Dobler said that this is only item D.4. and that we need to make sure that the 7 items are brought to the Audit Committee so nothing falls through the crack.

At-Large Audit Committee Member Dobler nominated Audit Committee Chairman Dent to be the liaison. At-Large Audit Committee Member Tulloch seconded the motion. Audit Committee Chairman Dent asked for further comments; receiving none, he called the question and the motion was passed unanimously.

D.3. Presentation and Discussion Item Only – IVGID System of Internal Controls (Requesting Staff Member: Director of Finance Paul Navazio)

Director of Finance Navazio gave an overview of the submitted materials.

Audit Committee Chairman Dent said from an internal controls standpoint, is Staff looking to the example of us overpaying on a contract and not getting the deliverables or are we leaving that up to Moss Adams at this point. Director of Finance Navazio said it is not about chasing down a particular problem and where we need to build up. We do have procedures that there is an expectation that a) any contract or purchase has the authority to do, b) that we are paying what we should be paying and no more or less, and c) that we are getting what we paid for. Because there are reviews through the entire process, when we pay that invoice, we are making sure that all the approvals have been made. So if someone has made an approval that they shouldn't have, Moss Adams will inform that and see whether or not the internal controls we have in place are being followed, adequate, or examples of where these procedures didn't assure those areas and then we will come back and address it. Audit Committee Chairman Dent said that we do know that we have a couple of those areas. Director of Finance Navazio said that was the reason we selected the contracts we selected for review. At-Large Audit Committee Member Tulloch said that Staff has indicated that a lot of these controls are in policies and procedures yet for capitalization the policy is pretty clear and has been ignored. There are 2 items in the 14 points that when you look at some of the things that have been capitalized, it doesn't comply with procedures and GAAP so if we can't get those, how can we catch others? When you look at something like capitalization, it is real money and we will have to take a write down because of some of these decisions. Director of Finance Navazio said he understands what is being said and when we take the write downs, those are the impacts. When we get to the 14 points, there is a whole host of issues to look at. We have reasonably attempted to align the activity with Board policy and it is probably an appropriate discussion to have when we update and tighten up the policy. At the time, it was assumed or expected that an asset would result from the work and then some areas of what is capital. Staff is looking forward to the Audit Committee helping us to prioritize them as there are a handful that we probably need to address. At-Large Audit Committee Member Tulloch said that capitalization touches relatively few and people don't

understand the impact. It would help to clear up some of the concerns with expenses hidden under capital. Director of Finance Navazio said it might be one of the first areas of discussion as he agrees that it is a priority. Audit Committee Chairman Dent said that he has made a note of it. Audit Committee Member Schmitz said that you mentioned providing policies as part of a public records request and that certain policies are included and updated so to make sure that we have the correct version, should we post our policies on the District website so that everyone has the updates and this makes them available? Also, on agenda packet page 16, framework for internal controls, it indicates that the goal is to have, as Part 1, to be on the schedule to be finished by the end of the year, however, we have consultants that are leading some of these in these cases. She doesn't believe that we haven't put out a request and she is concerned about consultants leading when we don't have a request. Then it says review all administrative policies and she is not sure what Staff means by administrative policies. She is concerned about consultants leading when we don't have anything going with consultants. Director of Finance Navazio said it is less of a schedule that we are managing to. It was put together in April and presented to this committee in May for discussion and to illustrate what a work plan might look like. Audit Committee Member Schmitz said that she hears Staff but if we need external resources, we need to get that going. Top down approach is great but while you are doing top down there are situation that arise that are bottom up. There are some issues that she has brought to Staff's attention such as charges for the beaches that aren't going there so there are internal controls that need to happen immediately so they don't continue. When you have those sorts of problems, you have to work from the bottom up and put a stop gap measure in place. Director of Finance Navazio said on procurement cards, which were put into place in 2015, Staff did an internal update and that is an example of where we will want to refine those procedures and update them when issues arise. This is not a linear process and Staff does it based on priority and as issues arise. Nothing prevents us from doing something about someone not complying and that we have to identify if they are not following the procedures or if we have a weak procedure. The administrative policies and procedures shown on agenda packet page 18 is making a distinction between administrative and Board adopted policies and practices. Audit Committee Member Schmitz said going back to her concern about consultants, take action on that sooner rather than later. Director of Finance Navazio said that the question is up to the committee and the Board. He has said and will continue to see a role. He doesn't know if we want to bring someone on board but that we can do an overview of things as there are areas where we either need

to improve or develop our procedures where he and the internal Staff may not be the best folks to tell you the industry best practices for all of our venues. In having done this at other agencies, if you want to bring someone in, so be it. His suggestion is to get far enough along in the review that we have identified the weakness and identified areas where outside help, like in the contract management with Moss Adams, would be where we are getting the most benefit in bringing on an outside consultant. Audit Committee Chairman Dent asked if the Director of Finance is the one deciding if we have weaknesses? It would seem that it might be hard for Staff to identify them and that it seems like an outside might be a good starting point. So are you the point person or is there a committee? Director of Finance Navazio said it really need to be everyone working together and that identifying an area of weakness is the easy part and that coming up with a fix is where the expertise comes in. Identification is easy and has been done by Staff and some on this committee. Staff is making sure we have a work plan as to what the work requires. Audit Committee Member Schmitz said that one of her concerns is the stop gap. We have to stop when we find some of these issues so they don't continue forward. Is that the approach you are taking? Are you putting in place new procedures or controls and adherence thereto? Director of Finance Navazio said yes, but that he wants to be careful. We are correcting the issue and then we go back and see if it requires a policy or procedure. If there was a data entry error, then it could be a training issue or a step that got skipped. Not everything that we come across is a concern about policy and procedure but rather it is the way we ensure compliance. Audit Committee Member Schmitz said as an indication of internal control, are we modifying the procurement card approvals that we are learning about as that is what she is asking. Director of Finance Navazio said he would like to say but we need to discuss those on these lists. He can say yes, we are tracking and we do have lists. What Staff is looking for is prioritizing on vulnerabilities to make sure we are following Board approvals on purchases and deliverables; we will get to those as we get to them. Audit Committee Chairman Dent said that he appreciates the update and that he would like to move the meeting along so we can bring this matter back again. At-Large Audit Committee Member Aaron said he would like to have a side discussion with the Director of Finance and when you first started your presentation, you talked about the framework for governance which includes internal controls and company policies. Basically, it is identify, process, document and enforce. Staff is absolutely right about identify, document and enforce coming from management and preferable from the highest point. It is the enforcement that we can talk about. As to deliverables, the key

deliverables that he would like to see is what is your approach, what is your plan, what is your test plan, how to mitigate and solve any issues, and that he would like to see a schedule and a methodology. The other thing that he heard was that Staff wanted to bring on board Moss Adams to assist with testing – is that a correct statement? Director of Finance Navazio said that Moss Adams is currently engaged with a limited scope and that he would remind the Board of Trustees members that when Staff was in front of them on this matter, that the funding was to come from the funding authorized for internal controls. Moss Adams is a very capable outfit and there have been no conversations about the next piece of help with internal controls. At-Large Audit Committee Member Aaron said thank you, he understands. We get input from all direction and from whomever on what the possible issues are that exist within the District and within business operations. This is music to his ears. He would like to know if Staff has drafted up a list of known issues that we have because if you go into the project with those issues in the forefront, it is always appreciated and he would appreciate it if Staff could do that and then more issues can be identified. He would like to see the focus of Staff's work for the manual process as well as the systemic controls. The idea that we have a neutral set of eyes looking at this is good. At-Large Audit Committee Member Dobler said that he has been involved for over 5 years. The District's Auditor has never expressed an opinion on internal controls. Look at the packet, there are summaries of ordinances, resolutions, etc. and all are abbreviated without a date. The purchasing procedures are 28 pages but there is nothing there. We have got personnel policies and no back up. We don't have anything. If you think about this logically, people have to have internal controls to do the right thing yet they haven't been doing it for a generation. There is no shortage of problems and to write a control on himself; he doesn't know about doing it this way. We aren't in the business of doing recreational activities, we are doing spreadsheets. We need to have someone come in and look at everything and say these are the controls we need. This process is absolutely backwards wrong. At-Large Audit Committee Member Aaron said basically what you [At-Large Audit Committee Member Dobler] is saying is what he is saying however having an internal third party is not how it works. All the documentation and basic business transactions are driven by the organization internally because they know that and the consultant doesn't run their business. At-Large Audit Committee Member Dobler said they review what we are doing and they should write the controls otherwise it is backwards. At-Large Audit Committee Member Aaron said controls are what they are writing and the focus is on the system side because of the manual

side. This is what he does for a living and he would never come in there and say this is the way you should do the accounting; it is a fine line to walk. We own it and we need to follow up and test it to make sure it makes sense. Director of Finance Navazio said that he agrees with you on internal, external and the system. When he came on board as the new Director of Finance, he needed to access the District's internal controls even if there weren't issues. Folks do have opinions and he can't do his job if he doesn't have comfort in the process, etc. It is absolutely imperative to have the internal controls in place to do our jobs and that can be informed by prioritizing issues that have been raised. To At-Large Audit Committee Member Aaron's comment, the huge area where we are vulnerable is the manual processes because we don't have a robust internal system. We are all on point in that this is an important body of work. At-Large Audit Committee Member Aaron said that manual processes are always a concern and he appreciates that statement.

Chairman Dent called for a 5-minute break at 5:55 p.m.; the Audit Committee reconvened back at 6 p.m.

D.4. Review, discuss, and possibly take action related to the following communications that have been received and are included:

D.4.a. April 7, 2020 e-mail communication received, subject: 14 points of errors in the CAFR from Cliff Dobler and Linda Newman (20 pages)

i. Staff response and presentation (Requesting Staff Member: Director of Finance Paul Navazio)

Director of Finance Navazio gave a presentation of the submitted materials.

Audit Committee Member Schmitz said that she would like to propose an approach; when she reads through this, there are a couple of points that are long term and then there are overarching concerns. Number 1 is punch card accounting and, specifically, the contra revenue accounting that is transferring funds from Community Services to the Beach fund. When we set up the budgets and the rec roll, those two funds are completely separate and this issue has been lurking for several years. Number 2 is enterprise versus special fund accounting, and if we sought out an independent second opinion that potentially addresses all the CAFR issues, a lot of these things would go away. So let's look at the big things and get clarity before we start going into the notes, etc. This is her suggestion of an approach. Audit Committee Chairman Dent said he agrees with Audit Committee Member

Schmitz and stated that it shouldn't take very long for that review to occur. He likes that approach as it is in line with the Board authorization and that is to go and hire an expert to give us feedback on these items. At-Large Audit Committee Member Dobler said he doesn't disagree with that and that is where the illegal aspects come in. Some of these have simmered or boiled over for 4 or 5 years. The capitalization policy could have an impact on the Utility Fund and that this boils down to materiality and that when a reader comes up with a different view as they see major differences. As an example on capitalization, what we were talking about on being expensed as capital. At-Large Audit Committee Member Tulloch said his recollection was \$1.3 million in various studies which are never capitalized and are not eligible. Similar things were done with the repairs on the pipeline. There were repairs of 2 to 3 years that will have to be written down. There are material changes in the overall financial statements. At-Large Audit Committee Member Dobler said that the financial statements have to be restated because of the net position in the Internal Services Fund and because the auditors had to look at each fund, they have to be restated because it wasn't reported properly. Their view along with that those funds were restricted has been going along for years. The District has been collecting money for that project and then saying it is unrestricted. Substance over form and when you do accounting, you look at the substance. The District has been collecting \$2 million as a set aside and you can't say it is set aside and then say it is unrestricted as that turns into a violation of common sense as well as an attempt to turn around the financial position to better than it was. How long did we go around on how much reserves should be in the Utility Fund? It was never addressed because the pipeline was unrestricted. Then what Staff did was to add projects so they could use it. If it was restricted, it would have given it a completely different way to look at it. What was the substance of the transaction – it is a very important accounting principle. At-Large Audit Committee Member Tulloch said that he would add that it was worse than that because we specifically stated, on the utility bills and other documents, that this is what it was being collected for and then it was used elsewhere. He doesn't want to comment on the legality but the District made the specific statement to the customers that \$2 million was collected for that purpose. At-Large Audit Committee Member Dobler said just as an example, in 2019, the Board of Trustees has decided that this money should have been restricted but it wasn't however in March of this year, they said it should be restricted. Think of the impact; in 2019, the District's unrestricted position was just over \$12 million and 89% of that unrestricted position would have gone away as \$11 million should have been restricted. Everyone knows that is pretty material and that it is going to require restriction. If he were a reader of this, he would think the District is doing fantastic as there is \$12 million in unrestricted. \$11 million is quite substantial and you can't get around that because it was wrong. Therefore, he doesn't believe it was in accordance

with GAAP as you said you were setting it aside and you weren't. He could go on and on about deferred revenue which wasn't for current activities. Audit Committee Chairman Dent said so what he is hearing that we want to have a third party review capitalization as well or can we handle that on our own? At-Large Audit Committee Member Tulloch said that the collection of money is something that can be addressed in the utility audit. It is a major issue of what we have actually been told as we have a contract with our customers that says we are collecting money for something. Within a regulated utility, it would get bounced straight back and held to be illegal. Audit Committee Chairman Dent said we have been going around and around on this issue for years and that we did look in to it about 5 years ago. At-Large Audit Committee Member Aaron said right now he is on board and does support moving forward on more analysis of these topics by a third party expert. At this time, he is basically going to refrain until we have a discussion time to hear back from that expert. He thought we might get a little more discourse from Staff other than an opinion. Audit Committee Chairman Dent said he is going to back when the Board of Trustees voted on this and that was to hire a consultant to look at some of this stuff. He did reach out to a consultant which is a firm that oversees 100 public entities and he just wanted to throw that out there. At-Large Audit Committee Member Tulloch said he agrees with Audit Committee Member Schmitz' proposal and the direction to go there. When you aggregate all of these items, it mounts up to between 15 and 20 points and so he is in favor of getting a clean sheet to know where we are starting from. At-Large Audit Committee Member Dobler said that the key point is under the law, which is GAAP, he believes that these recreational venues are enterprise funds and that there are only two places to recover costs – charges for services and facility fees. When you did the budget and you found out there were shortfalls, you did your facility fee. It would never qualify for a special revenue fund because the facility fees were never unimposed exchanged fees. His point is that if we find out, which he agrees with, it is going to require us to do our financial statements in enterprise funds and we are working on that right now. The firm you mentioned has a lot of experience in Nevada and Utah. We may have to put those venues back to enterprise funds. He is all for going with Audit Committee Member Schmitz' proposal and we should get started on it pretty quick. Audit Committee Chairman Dent said so they will also be reviewing enterprise funds and punch cards and that the firm's name was HintonBurdick. Director of Finance Navazio said that it is up to the Audit Committee and he is fine with the direction and that he does think there is a conversation about reservation of the utility funds that gets looked at with that review so Staff can go either way. More than happy to go through this chapter and verse but he was asked to be pretty brief. It is absolutely a discussion to be had as it is most appropriate and he would refer to that reference in the document. Transition is in violation of GAAP and GASB as

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there are specific criteria in GAAP and GASB and if you meet them, you must use enterprise funds. All he is focused on is in the review was if the past practices require us to be enterprise funds. It is his conclusion that our practices and Board policies do not trigger the GASB requirement that we be in enterprise funds. That is the pricing policy question and depending on how the Board answers it, and just because we cover our costs, that is not how we set the pricing. At-Large Audit Committee Member Dobler said that the District's pricing is not limited to the venues as it includes the facility fees. Every year that is what you do, you take a look at the shortfall, assess a facility fee, and put so much in capital, operations, etc. and that is what the policy says which should be shredded as it has no legal basis. You have to look at the substance which is assessing fees to recover your costs. Except for last year, when you made a mistake, every year when you present and show that this is what we are short, this is what we need, you have never raised the facility fee and not used it. Every budget should only go to the extent of recovering your costs because you have no other way of getting money. NRS 318.197, which gives the Board the authority to raise fees, never said raise a couple of million dollars and not tell anyone what you are going to do with it. Director of Finance Navazio said he is not going to argue that point. Audit Committee Chairman Dent said that there is no changing of minds so the best thing is to go out and get an opinion on this; who wants to be tasked with preparing that memorandum and reaching out to Chad at HintonBurdick and talk to him and get a do not exceed price. Audit Committee Member Schmitz said she would be willing to work on it. District General Manager Winquest said as District General Manager, he supports Audit Committee Member Schmitz' recommendation and supports her writing the memorandum and that his suggestion is we get a neutral person. Audit Committee Member Schmitz said she will collaborate and will take it on if people are okay with that. District General Counsel Nelson said that having a list of topics that you would like covered and then having some that you might want to be included in the rate study would be helpful. Audit Committee Member Schmitz said the list she has is enterprise versus special revenue funds, punch card accounting, capitalization but separate from the Utility Fund and reserves and what is the criteria on what is capitalization. At-Large Audit Committee Member Tulloch said he would suggest splitting into two things – in the rate, more generalized policy and the advanced collection of monies. Issues of the past capitalization should be some of the references. Audit Committee Member Schmitz said she understands the split and will make sure that everyone reviews it and then bring it back to the Audit Committee as soon as she can pull this altogether. At-Large Audit Committee Member Aaron said to summarize what you are going to be leading – what of these 14 points is to have an external resource review or which ones are we going to have continuing conversation on or both. Audit Committee Member Schmitz said pick the three major areas that

we just discussed – special revenue versus enterprise, punch cards, and capitalization and that it is a bit of a domino effect. We will review them all again and the questions about certain topics and that she will bring those back to the Audit Committee at a high level. At-Large Audit Committee Member Aaron asked what do we want the external expert to look at? Audit Committee Member Schmitz said we are going to ask for their opinion. At-Large Audit Committee Member Dobler asked if we need a motion. Director of Finance Navazio said he is fully supportive of getting a good scope of work and an agreement and to be mindful that depending on the quote or price, we need to make sure that we are following our procurement policies on sole sourcing, etc. District General Counsel Nelson said that he agrees and that a motion is not required as the consensus of the Audit Committee is for Audit Committee Member Schmitz to bring it back. Audit Committee Chairman Dent asked when this matter could be brought back? Audit Committee Member Schmitz said she will touch base with the Chair in a week and then establish a timetable in a week's time as that should give her the time to do some legwork and that she wants to come back with some ideas about cost so she will touch base with the Chair in a week. Audit Committee Chairman Dent so we should plan to have an Audit Committee meeting in about a month and yes, we can touch base in about a week and then set that date. Audit Committee Member Schmitz said she has no problem with that and she will work to that timeline and noted that she is having surgery on September 8. At-Large Audit Committee Member Aaron said we need to think about if that works into the audit. Audit Committee Chairman Dent said that Eide Bailly does know that this is lingering out there thus they are not in the dark. District General Manager Winquest said Staff is not available on September 2 but that September 1 would work for the next Audit Committee meeting. One more clarification – did At-Large Audit Committee Member Tulloch say when they do the utility rate study they will look at the way the funds for the pipeline were handled. At-Large Audit Committee Member Tulloch said yes. Audit Committee Chairman Dent asked if September 1 works for everyone with a 5 p.m. start. Audit Committee Member Schmitz said that she needs as much time as possible and that she will push as quickly as she can. Audit Committee Chairman Dent said that you can always reach out to another committee member to help push it across the finish line. At-Large Audit Committee Member Dobler said he needed clarification on the deferred revenue which is money that has been raised for the effluent pipeline and that accounting issue; how is it accounted for and that is distinct and separate. Audit Committee Member Schmitz said that is a good point and something that she should include. District General Manager Winquest said that thought that we were not combining the two of these. At-Large Audit Committee Member Dobler said it is a very large item. Audit Committee Member Schmitz said she will include it. At-Large Audit Committee Member Tulloch said he totally agrees.

Audit Committee Chairman Dent said that agenda items D.4.b. through D.4.g. will be addressed at a future meeting.

- b. April 2, 2020 e-mail communication regarding Dillon's Rule from Ms. Diane Heirshberg and May 2, 2020 e-mail communication from Attorney General Opinion (dated 2005) from Joy Gumz (13 pages)
 - i. Update/Response (Requesting Member: District Legal Counsel Joshua Nelson)
- c. July 15, 2020 e-mail communication received, subject: Expansion of 14 points to 20 and still counting from Cliff Dobler and Linda Newman (48 pages)
- d. August 7, 2020 e-mail communication asking Is IVGID Improperly Using the District's Ad Valorem Taxes? from Aaron Katz (2 pages)
- e. August 4, 2020 e-mail communication regarding Historic Memorandums/Letters from citizens on accounting and reporting the activities of Community Services and Beach recreation venues as Governmental Funds from Audit Committee Member Clifford F. Dobler (79 pages)
- f. August 4, 2020 e-mail communication regarding Historical Memorandums/Letters from citizens on Punch Card Accounting from Audit Committee Member Clifford F. Dobler (97 pages)
- g. August 4, 2020 e-mail communication regarding Central Services Cost Allocations Plans from Audit Committee Member Clifford F. Dobler (10 pages)

E. APPROVAL OF MEETING MINUTES (for possible action)

E.1. Audit Committee Meeting Minutes of July 29, 2020

At-Large Audit Committee Member Tulloch said he had one correction, on page 400, first paragraph, top of the page, June 23 should be July 23, and should be changed in four occasions. Audit Committee Chairman Dent said, hearing no further changes, the minutes were approved as amended.

Director of Information Technology Mike Gove gave an overview of the new Zoom requirements for public comments.

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

Aaron Katz said it was a good meeting and that he wanted to give some history to the committee. When he and Judy first came to Incline Village, the Audit Committee had only started 8 or 9 years ago, it consisted of 3 Board members, and all they did was rubber stamp; it was a joke. It has been a joke ever since then until now, so he is impressed with the discussions the committee is having as they really benefit our community so thank you very much and keep up the good work. One comment to At-Large Audit Committee Member Dobler, yes, the Staff lied to us, it was intentional fraud and it never should have happened. Your mind just knows when something has been wrong and hopes there are no more episodes like that.

Linda Newman said she is concerned about Staff's comment that internal control documents are not in any one place. So, how does Staff know the policy and practices and how do their supervisors exercise oversight? And, if some policies are obsolete or ineffective, as Staff stated, how does Staff know what they should follow? Please advise why these internal control manuals and their contents were not provided to the public when requested. As public records, withholding these documents, also known as concealing, violate the Public Records Act. Please make the contents of these manuals available on the District's website as Trustee Schmitz requested. She would also like to express her support for an independent accounting firm to review the top three contentious issues in the 2019 CAFR. And, for Staff's clarification, professional services contracts do not require competitive bidding. Please take a look at NRS 332 so that you are apprised of Nevada law. Thank you.

G. ADJOURNMENT (for possible action)

The meeting was adjourned at 6:55 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.