

MINUTES

AUDIT COMMITTEE MEETING OF JUNE 9, 2021 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 Audit Committee Chairman Dent on Wednesday, June 9, 2021 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), Raymond Tulloch (At-Large Member) (absent), and Derrek Aaron (At-Large Member) (absent at roll call - joined the meeting at 5 p.m.).

Also present was Staff member Director of Finance Paul Navazio.

B. PUBLIC COMMENTS*

Dick Warren said Cliff Dobler has succinctly laid out how, over the past 5 Fiscal Years, IVGID has deliberately distorted their accounting to qualify for Special Revenue Accounting (especially with regards to Community Services), materially overstating revenues, and misappropriating funds related to the Community Services Special Revenue Fund. IVGID includes as revenues in the Special Revenue Fund the Facility Fees specified for capital projects & debt service, and then they transfer out those amounts to capital projects & debt service funds. The Moss Adams report dated 1/21/2021 clearly stated that such accounting and reporting was not in compliance with GAAP. IVGID did it correctly for the 2021 Budget but not for the 2020 Budget. IVGID Management probably did this so that Facility Fees would reach 20% of total revenues, a requirement by GASB if one wants to use Special Revenue Accounting. But the Facility Fees were not even close to being 20% of total revenues. Current IVGID Management relies on Resolution 1838 to supersede GASB, NRS, and common sense. GASB is GAAP, not some concoction contrived by IVGID Management, and GASB trumps Resolution 1838. But the biggest issue is misappropriation of funds. Over the past 5 fiscal years, Community Services revenues exceeded expenses for all Venues WITHOUT the Facility Fee. Which means the Facility Fee was never needed! But \$9.8M was collected from property owners over this time frame, so either this amount should be returned to the property owners (around \$1,200 per Parcel Unit Owner) or be set aside if operational expenses exceed revenues in the future. As of 6/30/2020, about \$6.5M of this \$9.8M remained in the Special Revenue Fund (the difference, about \$3.3M was improperly transferred to capital projects). And

Minutes

Audit Committee Meeting of June 9, 2021

Page 2

around \$5.6M of the \$6.5M was then transferred out of the Special Revenue Fund to the capital project fund in the current fiscal year. This was not in compliance with GASB 54 & the intent of the BOT. What does all this mean? The Financial Statements are not presented IAW GAAP, there has been no consistency in financial reporting for over 5 FY's, accounting for operations in a Special Revenue Fund was inherently wrong because Facility Fees never reached the 20% threshold for all revenues, and putting all of the Facility Fees as revenues in the Special Revenue Fund made it appear as if the Community Services Venues were quite profitable. Lousy accounting, once again brought to you by the current incumbents (District General Manager and Director of Finance). But misappropriating funds is serious business and needs to be addressed. And he loves how the District General Manager and Director of Finance couldn't care less if the property owners got screwed and paid more in Rec Fees than they needed to. Thank you.

Aaron Katz said he has a written statement to be attached to the minutes of the meeting that he will be submitting. Earlier today, he sent an e-mail to the committee outlining his objections to the engagement letter that was entered into because it puts the responsibility of rooting out fraud on the very perpetrators of that fraud which is wrong. We all know that almost everything Staff do is the product of fraud; he presented evidence. You just heard from Mr. Warren – misappropriation of funds – that's fraud. So this means we have to do some proactive things. Number 1, he asks that you rescind the engagement letter – we do not want to have a prohibition on rooting out fraud insofar as the auditors' concern; number 2, in the alternative, we need to hire a consultant to root out and report back on the fraud then we can give the report to the auditor and they can't claim no knowledge; number 3, we need to change the audit that we are going to have Davis Farr perform. The NRS doesn't not specify the type of audit that we must perform and NRS 354.486 defines the types of audits that are permissible. He pointed out eight items and he asks you to conduct an audit of 4 through 6 which he then read and said that is the kind of audit we need. We tell Davis Farr that is the audit to perform and they tell us their timetable and scope of work. If you don't do what he is suggesting you do, we are destined to come up with another overpriced and worthless annual financial report which has been the history of IVGID. Let's do things right and get us on the right course, shall we? Thank you very much.

Frank Wright said he wants to talk about the engagement letter as well. He has some questions as he doesn't quite understand why we would have the management reporting to Davis Farr as far as fraud and misappropriation of funds and for things they find to be wrong – they won't report anything as they haven't reporting anything since they have been there. Let's go back to some of the things

that have happened in this District that needed to be reported to somebody who was going to do something about what was going on. So let's start with our District General Manager entering into contracts for hundreds of thousands of dollars without Board approval, slap on the wrist and the Board approves illegal action and agrees to spend \$300,000 on bathrooms. The Manager also altered the Hyatt Sports Shop lease without knowledge or approval of the Board. How about giving Eric Severance \$35,000 for plagiarized documents that were copy written – nothing was done. The is \$35,000 of public money that is gone. How about the sale of land with Board approval/knowledge to a secret list of purchasers – that's fraud. That was without Board approval and should have been reported but who would they report to and what would they do? How about Trustee Wong and Guinasso engaging in a lawsuit without Board approval? Then they stick to the District for a couple of hundred thousand dollars in legal fees which are still being collected from his recreation fee – all just to hide public records? What do you think is in those public records? He knows some things that are in there, some things have come out of those things. What do you think is going to be done when they find out that fraud has been perpetrated by this District? What about giving away the golf courses to private clubs every year so the elections can be rigged by their voters and to make sure they get their gravy train – cheap golf – gravy train – tee times – screwing the rest of the people in this community out of tee times that they would like to have. So how about violating the beach deed and giving away District property to nonresidents for life and for free? You don't think that is fraud when he is paying for somebody to access all of our facilities for free for life – that's fraud. Now, with the Davis Farr reporting, and you are going to let management make that report, you think they are going to come forward and tell you they are doing things illegal? That is like giving the wolf the keys to the chicken coop, it is not going to happen. Thank you.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Dent asked for a motion for a flexible agenda. Audit Committee At-Large Member Dobler asked that Item D.1. be moved to later in the agenda until Audit Committee At-Large Member Aaron arrives to the meeting as he has been our liaison. Audit Committee Chairman Dent responded rather than do that, let's do a flexible agenda but we can do what Audit Committee At-Large Member Dobler moved.

Audit Committee At-Large Member Dobler made a motion to move General Business Item D.1. to later in the meeting. Trustee Schmitz seconded the motion. Audit Committee Chairman Dent called the question and the motion was passed unanimously.

Trustee Schmitz said she would like to table Item E.4. until we have the whistleblower process fully defined and until we have that done, we don't have a process and move to defer until we have a whistleblower process defined, approved, and in place. Audit Committee At-Large Member Dobler said that he spent a lot of time on these memorandums and they have to do with the upcoming annual report thus he doesn't feel like he wants to have it postponed. Audit Committee Chairman Dent said he sees both sides and agrees that we don't have a formal process. There are several steps that need to happen and that need to be recommended to the Board of Trustees for the whistleblower program, this is something that we have been working on and are getting close to the finish line. He doesn't see how we can have any action. The Auditor is on the telephone so he does see some value in running this through them but that he doesn't see direction. Let's leave them on the agenda for now, run through them, and then postpone any action until the whistleblower program is in place. The reason Item 4 is so long is we are keeping track of them. Keep Item 4 on and won't take any action and the auditor is aware of these items. Audit Committee Chairman Dent asked if the members present were good with the agenda; yes, from Audit Committee At-Large Member Dobler and Trustee Schmitz.

D. REPORT ITEMS (*information for the Audit Committee and public*)

D.1. Informational Update on Internal Controls Project (Requesting Staff Member: Director of Finance Paul Navazio) – deferred from April 29, 2021 meeting

Director of Finance Navazio gave a brief overview of the submitted materials. Audit Committee At-Large Member Aaron said he has met a few times with the Senior Finance Team at the District and that there is sort of a process to reviewing existing policy and procedure and what he recommended is do that review, identify the weakness, and where we need to true up things. One of those is monthly reconciliation for key accounts – this is one of the key controls in order to flush out issues with transactions. They are engaging with their Staff to ensure that what is being done is in the procedures. Depending on the sector, every organization is different, carefully consider what the GAAP controls are and reference that. We have savvy people in the community and they will test us, back up with specifics, and that will help. Communications, specifically as to our progress, we talked about several items. No organization is perfect and we need to prepare when things go incorrectly as we have to be able to communicate. Thorough review of what we have, where we are missing a little bit, and then communication with the community. Audit Committee Chairman Dent provided a little more history on the

Minutes

Audit Committee Meeting of June 9, 2021

Page 5

background and stated that we are a work in progress and we are trying to do a better job of getting it where it needs to be. It is a huge task and undertaking, know it is an area of improvement, we are working on it, and this is the first report on the work that has been done together. Trustee Schmitz said, as it relates to the findings of Moss Adams 1 report on contractual overpayments and services not delivered, curious on whether the District has gone back to those vendors with documents? Have some of these procedures been updated? And would it be wise to have those actual documents be shared with the Audit Committee? Director of Finance Navazio said it would important to have a regular standing item for this. Audit Committee At-Large Member Aaron said another item we talked about in our last meeting, regarding contracts, is that there are a number of things that we have to consider – system control and manual controls. One of the things is that these things get out of sync. IVGID does have a purchase order hierarchy built into the system. This is being looked at in more detail and then if there is a manual contract that is being passed around, it needs to be part of the whole process. Trustee Schmitz said she appreciates that however Moss Adams identified that and she is asking about those particulars. She understands that modifications have been made since happened. Has the District gone back to the vendors were overpayment were made? Director of Finance Navazio said we can follow up between now and the next meeting. We have two different issues that are being looked at – it took place several years ago and things were put in place to ensure that doesn't happen. Staff needs to follow up with the appropriate Staff to see if there was any effort to go back to the vendor; he will follow up. Audit Committee Chairman Dent said he looks forward to getting an update on this matter. Audit Committee At-Large Member Dobler said on internal controls and it is real urgent, are the grant funded projects. He has finished his analysis on Incline Tahoe Foundation (ITF) grant and there were no controls at all and that the bike park seems to be scattered. No controls that addresses how you handle a grant from an outside group and follow up with the Memorandum of Understanding (MOU). It is pretty reckless as there is no policy, practice, procedure or control on that. Director of Finance Navazio said he will follow up with Audit Committee At-Large Member Dobler on this information. Grants have very strict requirements on controls and reporting and it is looser with donations. He understands that this is an area that we need to look at but we don't want to give the wrong impression with the grant funds that we are responsible to manage etc. The controls are there and we don't have a lot of them. These donations are separate and yes, we do have some work to do to tighten those up.

E. GENERAL BUSINESS ITEMS (for possible action)

E.1. Review, discuss, and possibly approve the District's Fiscal Year 2020/2021 Independent Financial Audit: Schedule/Work Plan (Requesting Staff Member: Director of Finance Paul Navazio)

Director of Finance Navazio gave an overview of the submitted materials. Davis Farr's Jeff Ball gave a brief update on the status of the audit – have been onsite to get an understanding of the entity, most items are in process, and that the work plan is fairly self-explanatory so he is open to any questions. Audit Committee At-Large Member Dobler said that this work plan, under Policy 15.1.0, we are supposed to review submittals and are we supposed to approve it before it was submitted, it is what it is and maybe off base so never mind – withdraw that comment. Mr. Ball said this would be the time to approve. Trustee Schmitz said she had a similar question and going to agenda packet page 21 under 2.4, it does say review and approve formal reports or letters to be submitted to the external auditor. So when she looks at agenda packet page 11, and she sees things here, to her it seems like these are some groupings of documents that perhaps the Audit Committee should also be provided and an example might be on May 28, it states provide final audit request and a list of confirmed instruction to the financial staff. Our policy is relative new and so she is wanting your guidance here as it relates to supporting our policy and at the same time, tying back to your work plan. Mr. Ball said as far as the policy goes, it is a little unusual to be submitting work papers to the Audit Committee as these are not formal reports, these are audit work papers and things that are used to form their opinion thus they do not qualify as a formal report. Trustee Schmitz said maybe that is something we should discuss with Director of Finance Navazio because we really wanted to tie and that she really appreciates your work plan and there might be things where we say these are the items that are being provided to the external auditor that to support our policy should also then be provided to the Audit Committee at roughly the same time so she thinks this will give us a framework but she thinks there are those questions what of these things should the Audit Committee at least have an opportunity to review so when we get to November, we are all sort of on the same page and we all understand where we are and hopefully things would go very smoothly so that would be the intent. Mr. Ball said on the May 28, underlying support hasn't been provided. Trustee Schmitz said we should have some clarity on the delivery of those and then on interviews related to fraud, don't see that on the schedule and do you have a broad classification on those that will be interviewed? Mr. Ball would have been done during interim field

work, who – from the Board, finance management, and then some employees who don't fit into those buckets – those interviews have been done. Work papers are still under review. Audit Committee Chairman Dent asked which Trustee was interviewed? Mr. Ball said Ms. Farr took care of that and that he doesn't know who it was. Audit Committee Chairman Dent said he would like to know. Audit Committee At-Large Member Dobler said on May 5 you provided an interim document and did you receive everything you need? Mr. Ball said yes and no, asked if GFOA comments were received, you haven't received them so they weren't provided. IT interview remains open – yes, everything reasonably requested was provided. Three items – GFOA, IT questionnaire and there is one other item that he doesn't know. Audit Committee At-Large Member Dobler said how many did you ask for? Mr. Ball said two dozen maybe. Audit Committee Chairman Dent said he agrees with the change in Policy 15.1.0 as we have known for a while that changes are needed and we focus on that this year, it was revamped heavily last year. We have a much more active committee and want to make sure that we are changing the policy if we need to. Trustee Schmitz said is it acceptable to have a takeaway and refining that language and working with the Director of Finance and Mr. Ball to do that? Audit Committee Chairman Dent said definitely want that clarity, so, yes, if you want to run with that and report back to us and place that on the long range calendar to look at.

Trustee Schmitz made a motion to approve the Schedule/Work plan provided by Davis Farr, LLP related to the Independent External Audit for the fiscal year ending June 30, 2021. Audit Committee At-Large Member Dobler seconded the motion. Audit Committee Chairman Dent asked for further comments, hearing none, called the question – the motion was passed unanimously.

- E.2. Review, discuss, and possibly approve that the Audit Committee make a recommendation to the IVGID Board of Trustees to engage Davis Farr LLC IVGID's external auditors to provide direction on certain outstanding accounting matters which were not addressed in the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2020 and Review, discuss and recommend to the Board of Trustees to implement expensing certain costs which have been included in construction in progress (Requesting Audit Committee Member: At-Large Member Cliff Dobler)**

Audit Committee At-Large Member Dobler gave an overview of the submitted materials. Director of Finance Navazio said that Staff has provided to Davis Farr both Moss Adams reports, Audit Committee report that went to the Board, also provided the other items that were provided Moss Adams at the end of the report, and that most, if not all items, have been provided to Davis Farr to be looked at in their current work. Staff doesn't think an additional scope of work is necessary as they fall under the current scope of work.

- The Community Service Special Revenue Fund does not have adequate Facility Fee revenues to qualify as a special revenue fund - Moss Adams report. Based on the fiscal 2021 budget the Facility Fees designated for operations are only 9.4% of total budgeted revenues. Audit Committee Chairman Dent said elevate to Davis Farr and address at a later time.

Audit Committee At-Large Member Dobler said we need an answer and how are you going to prepare your annual report – that is the question. Director of Finance Navazio said we are planning to prepare the annual report consist with the approved budget and special revenue funds and that Moss Adams said an alternative would be for the Board to designate additional revenues as special revenues. His recommendation would be to proceed as we transition, we will consult with them, not sure where they will land and our prior auditor was comfortable with special revenue. Directly, preparing the annual report using special revenues funds for Community Services, Beaches, and debt and capital funds for June 2021. Audit Committee At-Large Member Dobler said that the problem is that the Board, on February 10, 2021, agreed to do what was recommended and that is to be in compliance with GAAP, unless you intended to supersede the Board and not do what the Board said to do. Director of Finance Navazio said that was not his understanding on what the Board said to do and if we need Davis Farr to help us navigate through this issue, so be it.

- Reporting all Facility Fee revenues as general revenues in the Statement of Activities is improper and not in compliance with GAAP. Moss Adams report - IVGID management disagreed with Moss Adams findings and did not change reporting in the 2020 CAFR.

Audit Committee At-Large Member Dobler said that management disagrees. Director of Finance Navazio said it is largely a presentation issue and what is the nature of the facility fee; Staff will confer with Davis Farr. Audit Committee At-Large Member Dobler said if we raise a facility fee for Community Services and beaches,

Minutes

Audit Committee Meeting of June 9, 2021

Page 9

can we use it for Utilities. Director of Finance Navazio said no. Audit Committee At-Large Member Dobler said then why it is general revenues? Director of Finance Navazio said it is a weird one and it is standby charge, no problem to put it wherever people want to see. One of the GFOA comments on the 18/19 annual report was should this be charges for services, Edie Baily said ok. No problem with moving to there. Audit Committee At-Large Member Dobler said then let's do it.

- Reporting Facility Fee revenues, designated by resolution specifically for Capital Projects and Debt Service, as Revenues in the Special Revenue Funds is improper and not in compliance with GASB #54 definition of a special revenue fund. Moss Adams report - IVGID management disagreed with Moss Adams findings and did not change reporting in the 2020 CAFR.

Audit Committee At-Large Member Dobler said this is not an issue.

- Facility Fee revenues reported in the Community Service and Beach funds should not be reported as operating revenues but should be reported as other financing sources in the Statements of Revenues, Expenses and Changes in Fund Balance. The imposed nature of the Facility Fees which are effectively secured by real property within the IVGID boundaries creates the necessity of other than revenues. Moss Adams e mail. IVGID management has not provided any input.

Audit Committee At-Large Member Dobler said that the Moss Adams representative said he felt very strongly that they should be classified below the line and that he disagrees with him on the beaches as it has to be a charge for services but because of the nature of how the Facility Fees is imposed on people, it should be considered non-operating revenues as it is secured by property owners property. Director of Finance Navazio said one of the things we struggled with is the above is in conflict with another bullet. Audit Committee At-Large Member Dobler said you are off base there. Director of Finance Navazio said everything else is operating revenues; highlights the fact that there are different ways to report these items. Audit Committee At-Large Member Dobler said that is correct, conflating two issues that are related. Just need some help with that one.

- Utility Fund Revenues of \$2,000,000 per year, which has been and currently is being collected from users of sewer services and specifically designated to replace the Effluent Pipeline Phase II (6 miles), should not be reported as operating revenues but should be reported as non-operating revenues. These collections are a financing transaction for a specific FUTURE infrastructure and no services are being delivered in exchange for the

collections. According to the annual financial report, the average annual operating income from fiscal years 2016 to 2020 has been \$1.777 million. If the \$2 million collected annually to finance the future pipeline was not included in operating revenues, the average annual loss would have been \$223,000. As a result, the unrestricted net position of the Utility Fund (adjusted for the pipeline set aside) has steadily declined over the past several years and is expected to be negative by \$2.7 million at June 30, 2022.

Audit Committee At-Large Member Dobler gave a background summary about the \$2 million collected each year; always looked like the Utility Fund was fine, collecting money to go do a project in the future and that is why the Utility Fund is in the straights it is right now, but not making any money at all. This should be a non-operating revenue that was restricted or reserved as it is being collected for a future project with no services provided; he thinks that is a correct application. Now our Utility Fund is bust, it is a financing transaction and he would like to have input on that. Director of Finance Navazio said there are two parts to this issue – treatment as capital program – operating or non-operating; and reserving those dollars and restricted as they are now in the unrestricted. Audit Committee At-Large Member Dobler said that is conflating two issues. Make the case right now, the Beach Fund has become an enterprise fund. About two or three weeks ago, the Board passed a budget in which they allocated a major portion for a future project, \$3.7 million profit, \$3.9 million was actually designated for a future project. The District didn't have that net income rather you raised it for a specific purpose – it has nothing to do with operations. Same thing with the Utility Fund and he is very passionate about this because it is a total distortion. Why are we making this money at the beaches when we get in for free? He is very passionate about it and we need to have a decision on that.

- The accounting for items within Construction in Progress - Note 5 of the 2020 CAFR is considered misleading and recommended by Moss Adams to cease. IVGID management reports ALL purchases and construction of a capital nature to be charged first to Construction in Progress accounts which in turned is transferred to other capital accounts when the purchases or construction is placed into service. This accounting treatment is misleading as a substantial portion of charges are annual purchases of equipment, rolling stock, uniforms, ski rental equipment, golf carts etc. which are NOT construction in progress. Purchases should be charged directly to the capital accounts and not be ran through construction in process. Moss Adams verbal recommendation at Board meeting.

Audit Committee At-Large Member Derrek Aaron joined the meeting at 5:00 p.m.

Audit Committee At-Large Member Dobler said 50 to 60% of purchases had nothing to do with construction in progress. Director of Finance Navazio said he would like to discuss this with the Controller. Audit Committee At-Large Member Dobler said again conflating. Director of Finance Navazio said that they are in construction in process. Audit Committee At-Large Member Dobler said everything is in there and it is 100% right. Director of Finance Navazio said it doesn't stay there at year end.

- In fiscal year 2019, \$4.2 million of costs charged to the Effluent Pipeline Phase II construction in progress account was transferred and capitalized as a fixed asset. Based on the Moss Adams report and extensive analysis of members of the Audit Committee, approximately \$3.2 million of the costs should have been expensed as the costs were for various activities which fall within the guidelines of expense transactions. IVGID management refutes this expensing probably based on a lack of knowledge of the historical events which occurred over the past 6 years.

Audit Committee At-Large Member Dobler said that nothing happened and most of it should have been expensed; we need to go through the effluent pipeline and see what should be charged off.

- The Notes to the Basic Financial Statements should be reviewed and revised as needed primarily regarding Significant Accounting Policies. The Notes are poorly written, out of place and in some cases factually incorrect. A lack of consistency exists in the use of words describing particular items. After the review and revisions are completed, a report on suggested changes should be presented to the Audit Committee for review.

Audit Committee At-Large Member Dobler said that the notes are quite bad, terms are not agreeing with what is going on, defensible space is a capital asset etc. and the notes need to be reviewed for GAAP and good English.

- Should a judiciary or agency fund be established for the activities of the Tahoe Water Suppliers Association which is currently being reported as a department of the Utility Fund?

Audit Committee At-Large Member Dobler said he got the agreement and all we are doing is acting as an agent or fiduciary and it shouldn't be in the financials. They didn't form an LLC or partnership, agreement is between 13 people and

holding monies that is hard cash and a liability, and it shouldn't be in our annual report at all as it should be off by itself. They are paying a fee and getting reimbursed for some of our expenses. Director of Finance Navazio said we are looking at this and we are looking at changing this agreement. Audit Committee At-Large Member Dobler said he is surprised that a legal entity hasn't been set up. There are liabilities there thus he is surprised. Director of Finance Navazio said it is under review and there are aspects that don't meet GAAP and GASB and not have it reported as piece of IVGID financials.

Audit Committee Chairman Dent said it sounds like Davis Farr is going to be looking at all of this. Mr. Ball said he understands the concerns, do have these noted in their work papers, and this should come from the engagement partner. There will be other opportunities to meet with the Audit Committee to discuss these items. These are part of their process to review these items to ensure we can offer a clean opinion. Trustee Schmitz said material misstated, not about materiality, more about compliance with GAAP and they work together. Mr. Ball responded and that they will opine as to whether they are materially misstated and in conformance with GAAP. Audit Committee Chairman Dent asked if there were other things to be brought back at a future meeting or any action this committee would like to take? No one spoke up.

- E.3. Review, discuss, and recommend to the Board of Trustees to implement expensing certain costs which have been included in construction in progress (Requesting Audit Committee Member: At-Large Member Cliff Dobler) – Deferred to next meeting**
- E.4. Review, discuss, and possibly take action related to the following communications that have been received and are included: (Requesting Audit Committee Member Audit Committee Chairman Matthew Dent) – Deferred to the future**
 - a. Memorandum from Cliff Dobler to District General Manager, Director of Finance, IVGID Board of Trustees with a copy to the IVGID Audit Committee dated April 8, 2021 – Funding Public Parks through General Fund resources – deferred from April 29, 2021 meeting**
 - b. Memorandum from Cliff Dobler to District General Manager, Director of Finance, IVGID Board of Trustees with a copy to the IVGID Audit Committee dated May 29, 2021 – Cash Position of Utility Fund 2020 to 2022**

- c. **Memorandum from Cliff Dobler to District General Manager, Director of Finance, dated May 31, 2021 – Reclassification of certain preliminary project costs which have been accounted for as construction in progress but must be expensed. The costs either have no future value because of abandonment or are considered expenses in accordance with the guidelines outlined in the Moss Adams final report dated January 4, 2021**
- d. **Memorandum from Cliff Dobler to IVGID Audit Committee with a copy to the Board of Trustees, District General Manager and Director of Finance dated May 31, 2021 – Incline Park Facility Renovation, Project#4378LI1801, Final disclosure of the close out of the Memorandum of Understanding (“MOU”) with Incline-Tahoe Foundation regarding construction of the project – Recommendations to the Board of Trustees**
- e. **Memorandum from Cliff Dobler to IVGID Audit Committee with a copy to the District General Manager and Director of Finance dated June 1, 2021 – Golf Courses Irrigation, Greens, Tees and Bunkers, etc. Expenses rather than capital assets**
- f. **Memorandum from Cliff Dobler to IVGID Audit Committee with a copy to the Board of Trustees, District General Manager, and Director of Finance dated June 1, 2021 – Improper reporting and use of Facility Fees**
- g. **Memorandum from Cliff Dobler to IVGID Audit Committee dated June 1, 2021 - Review, discuss and recommend to the Board of Trustees that the title for each of the 89 parcels of land acquired from Washoe County include the public purpose restriction required by Washoe County and that the nine parcels which were recorded as an asset in the General Fund be transferred to the Community Services Fund**

Audit Committee Chairman Dent thanked Mr. Ball for joining us for this meeting; appreciate that participation today.

F. LONG RANGE CALENDAR REVIEW (for possible action)

Audit Committee Chairman Dent said that for the next Audit Committee Meeting, we will be reviewing internal controls and the whistleblower program as well as bringing back the items from Audit Committee At-Large Member Dobler and stated that it was good to understand where the auditors are landing. Also the appointment of a new Chair for the Audit Committee will be done at the next meeting. Audit Committee At-Large Member Dobler said, regarding the date, he would like to have them separate from the Board meeting. Audit Committee Chairman Dent said we like having them before the Board meeting. Trustee Schmitz said we should meet at 3 p.m. and piggyback on legal services as we don't have enough time to get through our agenda items. Audit Committee At-Large Member Aaron said he is obligated until 5 p.m. As to the date, do it every month through the end of the year as there is a lot going on. Trustee Schmitz said she agrees with what Audit Committee At-Large Member Aaron said and asked if it is possible for us to have our own long range calendar? Audit Committee Chairman Dent said yes, that is something that the new Audit Committee Chair can work through with our District Clerk. Audit Committee At-Large Member Dobler said he can meet on July 13. Audit Committee Chairman Dent said it is tentatively scheduled for 3 p.m. on July 13.

G. APPROVAL OF MEETING MINUTES (for possible action)

G.1. Audit Committee Meeting Minutes of April 29, 2021

Trustee Schmitz said she requested that Socks be changed to SOX (Sarbanes-Oxley). Audit Committee Chairman Dent said minutes are approved as revised.

H. PUBLIC COMMENTS*

Aaron Katz passed on his opportunity to speak.

I. ADJOURNMENT (for possible action)

Audit Committee Chairman Dent said he told Chairman Callicrate that he is resigned from the Audit Committee on June 9, 2021 at 6 p.m. and he said his thank yous.

The meeting was adjourned at 5:42 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 Aaron Katz: Written statement to be included in the written minutes of this June 9, 2021 regular Audit Committee meeting – Agenda Item E(1) – Objection to auditor engagement letter and work plan based thereupon

WRITTEN STATEMENT TO BE INCLUDED IN THE WRITTEN MINUTES OF THIS JUNE 9, 2021 REGULAR AUDIT COMMITTEE MEETING – AGENDA ITEM E(1) – OBJECTION TO AUDITOR ENGAGEMENT LETTER AND WORK PLAN BASED THEREUPON

Introduction: On April 29, 2021 the Audit Committee’s chairperson entered into the engagement letter proffered by the District’s new auditor, Davis-Farr¹. Once this letter was made public, on June 9, 2021, I sent an e-mail to the Committee² objecting to the following acknowledgment language set forth on page 15 of that letter:

It is IVGID “management (which) is responsible...(for) prevent(ing) and detect(ing) fraud, and for informing (Davis Farr) about all known or suspected fraud...involving (a) management, (b) employees...and (c) others...Management is also responsible for informing (Davis Farr) of any known allegations of fraud or suspected fraud affecting the (District) received in communications from...others...In addition, management is also responsible for identifying and ensuring that the (District) complies with applicable laws, regulations, contracts, agreements and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts ...or abuse that (Davis Farr) may report.”

Now staff propose sharing Davis Farr’s proposed audit scheduling and work plan³ in accordance with that engagement letter agreement⁴. I object. And because I do, that’s the purpose of this written statement.

My June 9, 2021 E-Mail to the Board on This Very Subject: As aforesaid, on June 9, 2021, in anticipation of the Committee’s upcoming June 9, 2021 meeting, I e-mailed the Committee asking they rescind their consent to the above-quoted objectionable language, and they designate a different type of audit to be performed⁵. After all, NRS 354.624(1)⁶ does not designate the type of audit which must

¹ See pages 12-17 of the packet of materials prepared by staff in anticipation of this June 9, 2021 committee meeting [https://www.yourtahoepace.com/uploads/pdf-ivgid/0609_-_Audit_-_Searchable.pdf (“the 6/9/2021 Committee packet”)].

² That e-mail is attached to this written statement as Exhibit “A.”

³ See page 10 of the 6/9/2021 Committee packet.

⁴ In other words, ignoring staff fraud and NRS violations because they’ management’s responsibility rather than the auditor’s.

⁵ See NRS 354.486 (go to <https://www.leg.state.nv.us/nrs/nrs-354.html#NRS354Sec486>) which identifies the following types of audits potentially to be conducted in Nevada: “the examination and analysis of financial statements, accounting procedures and other evidence made in conformity with generally accepted auditing standards in the United States for one or more of the following purposes:

1. Determining the propriety and mathematical accuracy of material financial transactions;

be performed. Rather, it simply instructs that an audit must be performed⁷. And other than the requirements set forth at NRS 354.624(4)⁸, there is no requirement a public entity include anything

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2. Ascertaining whether financial transactions have been properly recorded;
 3. Ascertaining whether the financial statements prepared from the accounting records fairly present in all material respects the financial position and the results of financial operations and cash flows of the governmental unit in accordance with generally accepted accounting principles in the United States and on a basis which is consistent with that of the preceding year;
 4. Evaluating internal accounting controls over financial reporting of the handling of the public money and public property;
 5. Determining whether the fiscal controls established by law and administrative regulations are being properly applied;
 6. Determining whether there is any evidence that fraud or dishonesty has occurred in the handling of funds or property;
 7. Determining whether the acquisition, depreciation and disposition of property and equipment are accounted for in accordance with generally accepted accounting principles in the United States; and
 8. Determining whether the removal of the uncollectible accounts receivable from the records of a governmental unit is done in accordance with the procedure established by law and administrative regulations.”

⁶ Go to <https://www.leg.state.nv.us/nrs/nrs-354.html#NRS354Sec624>.

⁷ It instructs that “each local government shall provide for an annual audit of all of its financial statements.”

⁸ This statute provides that “each annual audit must cover the business of the local government during the full fiscal year. It must be a financial audit conducted in accordance with generally accepted auditing standards in the United States, including findings on compliance with statutes and regulations and an expression of opinion on the financial statements...The report of the audit must include:

(a) A schedule of all fees imposed by the local government which (a)re subject to the provisions of NRS 354.5989 (go to <https://www.leg.state.nv.us/nrs/nrs-354.html#NRS354Sec5989>);

(b) A comparison of the operations of the local government with the approved budget, including a statement from the auditor that indicates whether the governing body has taken action on the audit report for the prior year;

(c) If the local government is subject to the provisions of NRS 244.186 (go to <https://www.leg.state.nv.us/nrs/nrs-244.html#NRS244Sec186>), a report showing that the local government is in compliance with the provisions of paragraphs (a) and (b) of subsection 1 of NRS 244.186; and

(d) If the local government is subject to the provisions of NRS 710.140 (<https://www.leg.state.nv.us/nrs/nrs-710.html#NRS710Sec140>) or 710.145 (<https://www.leg.state.nv.us/nrs/nrs-710.html#NRS710Sec145>), a report showing that the local

more. So why not perform a more meaningful audit? One which: evaluates internal accounting controls over financial reporting of the handling of the public money and public property; determines whether the fiscal controls established by law and administrative regulations are being properly applied; and, determines whether there is any evidence that fraud or dishonesty has occurred in the handling of funds or property?

And the Committee's Response: Bueller? Bueller? Bueller?

Conclusion: And you wonder why every past audit the District has obtained is worthless? And you expect anything different this time around? Unless the changes I recommend are adopted, the District is destined to make the same mistakes it makes each and every year. And you wonder why the Recreation ("RFF") and Beach ("BFF") Facility Fees are as high as they are, and never seem to be reduced? Now you have another example of one of the reasons.

Respectfully, Aaron Katz (Your Community Watchdog), Because Only Now Are Others Beginning to Watch!

government is in compliance with the provisions of those sections with regard to the facilities and property it maintains and the services it provides outside its territorial boundaries.

EXHIBIT "A"

Re: June 9, 2021 IVGID Audit Committee Meeting, Agenda Item E(1) - April 29, 2021 Auditor Engagement Letter

From: <s4s@ix.netcom.com>
To: <dent_trustee@ivgid.org>
Cc: <schmitz_trustee@ivgid.org>, <cfdobler@aol.com>, <raytulloch@munrotulloch.com>, <DCA2319@yahoo.com>
Subject: Re: June 9, 2021 IVGID Audit Committee Meeting, Agenda Item E(1) - April 29, 2021 Auditor Engagement Letter
Date: Jun 9, 2021 11:26 AM

Chairperson Dent and Other Honorable Members of the Audit Committee -

I have examined the Board packet for the above-meeting and am most dismayed by the terms of the auditor engagement letter Chairperson Dent executed with Davis Farr. In particular I object to the following language on page 15 of the Board packet:

"Management is responsible...to prevent and detect fraud, and for informing (Davis Farr) about all known or suspected fraud...involving (a) management, (b) employees...and (c) others...Management is also responsible for informing us of any known allegations of fraud or suspected fraud affecting the Entity received in communications from...others...In addition, management is also responsible for identifying and ensuring that the Entity complies with applicable laws, regulations, contracts, agreements and grants and for taking timely and appropriate steps to remedy any fraud, illegal acts...or abuse that (Davis Farr) may report."

Your staff's middle name is "FRAUD" and each of you know this. So why would you knowingly agree to rely upon wrongdoers to fulfill your responsibility of identifying fraud and communicating it to our auditor?

Do I really need to provide evidence of staff's fraud?

Let's start with the definition of fraud. "Fraud is a criminal offense when people deliberately misrepresent themselves in order to receive benefits to which they are not legally entitled, such as money...or public services" (go to <https://www.shouselaw.com/nv/laws/fraud/>). Each of you know that IVGID staff are guilty of being accessories in the Board's obtaining money based upon false pretenses. Just look at recent Resolution 1889 which adopted next fiscal year's RFF/BFF and ordered their collection on the county tax roll (go to https://www.yourtahoeplace.com/uploads/pdf-ivgid/H.2._-Rec_Roll.pdf).

There staff have MISrepresented that:

1. The RFF/BFF were and are standby service charges for the mere availability to access and use the District's PUBLIC recreation venues and the beaches;
2. The RFF/BFF pay for "special benefits" delivered to property. (i.e., service charges);
3. The RFF/BFF are "required" notwithstanding they're not because of our huge excess fund balances;
4. The owners of the parcels assessed the RFF/BFF are directly benefited in a fair and reasonable way for the sums their parcels are assessed;
5. The RFF/BFF to the extent they are charged for natural, intrinsic and fundamental distinctions (even though each of you know they are not charged for these distinctions because they are charged for the availability to access and use

recreation venues) are reasonable in their relation to the object of the charges imposed;

6. The RFF/BFF have been apportioned in relation to said natural, intrinsic, fundamental and reasonable distinctions among said rates;

7. All of the parcels within the District's boundaries are being assessed the RFF/BFF for the alleged recreation benefits they are receiving;

8. Those whose parcels are involuntarily assessed the RFF/BFF are entitled to seek their refund based upon all laws applicable to the levy, collection, and enforcement of general taxes of the District; and,

9. The central services transfers staff make from the Utility, Community Services and Beach Funds not only represent necessary services provided by the General Fund, but reasonably priced services which cannot be obtained from other sources at or below the costs assessed.

Have staff informed the auditor of the above? Do you the audit committee intend to? And if so, what do you expect the auditor to do about it?

I ask you do two things.

First, RESCIND your consent to the engagement letter to the extent it includes the above-language to which I object. Why is it someone's job other than the auditor to root out staff fraud?

Second, CHANGE the type of audit you have engaged Davis Farr to perform. NRS 354.486 defines the various types of audits which may be performed:

1. Determining the propriety and mathematical accuracy of material financial transactions;
2. Ascertaining whether financial transactions have been properly recorded;
3. Ascertaining whether the financial statements prepared from the accounting records fairly present in all material respects the financial position and the results of financial operations and cash flows of the governmental unit in accordance with generally accepted accounting principles in the United States and on a basis which is consistent with that of the preceding year;
4. Evaluating internal accounting controls over financial reporting of the handling of the public money and public property;
5. Determining whether the fiscal controls established by law and administrative regulations are being properly applied;
6. Determining whether there is any evidence that fraud or dishonesty has occurred in the handling of funds or property;
7. Determining whether the acquisition, depreciation and disposition of property and equipment are accounted for in accordance with generally accepted accounting principles in the United States; and
8. Determining whether the removal of the uncollectible accounts receivable from the records of a governmental unit is done in accordance with the procedure established by law and administrative regulations.

Although the NRS requires IVGID to perform yearly audits, it does NOT specify what type of audit to perform. From experience I can tell you that the type of audit IVGID typically performs is WORTHLESS. Therefore a different type is necessary. And I suggest one which incorporates items 4-6 above.

Finally, engage the services of a third party professional to do the job you expect your staff to do: that is, identifying fraud of all kinds and informing (Davis Farr) and Board about the same.