

## MEMORANDUM

**TO:** Board of Trustees

**FROM:** Ray Tulloch  
Audit Committee Chair

**SUBJECT:** Review, discuss, and possibly take action on the written annual Audit Committee Report to the District's Board of Trustees (Exhibit One) in conjunction with the presentation of the annual audit in accordance with Policy 15.1.0 (subparagraph 2.4.6).

**DATE:** March 9, 2022

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### **I. Background**

Under Board Policy 15.1.0, section 2.4, the Audit Committee is required to:

- 2.4 Facilitate the external audit process.
  - 2.4.1 Review and approve formal reports or letters to be submitted to the external auditor.
  - 2.4.2 Provide an independent forum for (external and/or internal resources) auditors to report findings or difficulties encountered during the audit.
  - 2.4.3 Review the auditors' report of findings and recommendations with management and the auditor.
  - 2.4.4 Review the CAFR in its entirety, including unaudited sections and letters.
  - 2.4.5 Follow -up on any corrective action identified.
  - 2.4.6 Submit a written annual Audit Committee Report to the District's Board of Trustees in conjunction with the presentation of the annual audit.
  - 2.4.7 Assess the performance of the independent auditors.

At the Audit Committee meetings of November 17 and December 8 respectively the Audit Committee completed actions 2.4.3 and 2.4.4

At the Audit Committee meeting of December 16 the Committee reviewed and agreed changes to the draft report prepared by Audit Committee chair Tulloch.

The Audit Committee has previously provided the General Manager and Finance Director with a draft copy of this report to provide them with an opportunity to respond to the issues identified and described herein by the Audit Committee. The response was discussed at the February 22 Audit Committee meeting and any agreed changes made.

## II Action

This report and summary of recommendations is presented by the Audit Committee for the Board to review, discuss, and possibly take action on the written annual Audit Committee Report to the District's Board of Trustees (Exhibit One) in conjunction with the presentation of the annual audit in accordance with Policy 15.1.0 (subparagraph 2.4.6).

The Audit Committee has previously provided the General Manager and Finance Director with a draft copy of this report to provide them with an opportunity to respond to the issues identified and described herein by the Audit Committee. The response was discussed at the February 22 Audit Committee meeting and any agreed changes made.

The Committee also notes that, since the preparation of this Report, the Board has implemented changes in the Capitalization policy. The Committee expresses deep concern that, as a result of these changes, there are likely to be material issues and lack of consistency in future reporting of Capital assets which will make it difficult to have confidence in, or ability to compare, Capital Assets in subsequent ACFRs.

## III Recommendations

### **Summary of Audit Committee Decision Points and Recommendations for the Board of Trustees**

1. The Audit Committee notes actions are being taken by management to address the identified issues in the Auditors Compliance Report related to Internal Controls and Construction Projects.

**The Audit Committee recommends that the FY 21-22 audit be expanded in scope to include enhanced review of internal controls.**

2. Management corrected prior years of capitalization for items considered to be maintenance and repairs. However, the FY 2019-2020 and 2020-21 ACFRs are inconsistent.
  - a. For the Utility Fund, this is estimated to be \$181,882 (see Comments and Concerns #2 and Section 3.1)
  - b. For Community Services the amount is estimated to be \$1,171,606 (see Concern 11, Section 3.3, and Appendix D). These were for preliminary stage activities which include conceptual formulation and evaluation of alternatives, determination of future needs, feasibility studies and development of financing alternatives, temporary repairs for the Burnt Cedar pool and temporary repairs at the Mountain Golf Course Clubhouse.

- c. Similar costs were expensed for 2019-2020 (as a prior period adjustment - Note 22 of CAFR) for the Parks Master Plan (\$212,044) and the Incline Village Ballfield (\$77,216). In FY 2020-2021 similar costs of \$3,100,110 for the Effluent Pipeline were charged off as a prior period adjustment. This highlights the inconsistency of the financial statements.

**The Audit Committee recommends a prior period adjustment to expense items 2a & 2b for consistency and accuracy of our financial statements.**

3. Contained in the initial draft of the ACFR, the Auditor had identified an additional \$866,503.70 of charge off to expenses items for items capitalized in past CAFRs. After review by Management, some items were removed including levee and roadway repairs at the wetlands, spot paving at various recreational venues, sewer line repairs and roof repairs which, as noted in #2 above, had been determined to be expense items rather than capital.

Additionally, equipment items were grouped together to meet the capitalization threshold while Board Practice 2.9 states “**In no case will the District establish a capitalization threshold of less than \$5,000 for any individual item.**”. The Audit Committee Chair reviewed this with the Auditor, after the financial report was complete, and she concurred that the Board Practice is clear and not open to interpretation. In addition, an Audit Committee member reviewed with Melissa Crosthwaite, District Legal Counsel, who also concurred the statement is clear. (see Concern 8 and Section 3.2)

**The Audit Committee recommends a prior year adjustment to expense these items for compliance with Board Practice and consistency and accuracy of our financial statements.**

4. Beginning in FY 2018-2019 investment income was credited to the General Fund instead of other funds which had cash deposits at LGIP. This caused the General Fund’s opening balance in the FY 2020-21 ACFR to be overstated by approximately \$492K (over a 10% overstatement). This has not been corrected.

The new process management has chosen to implement is allocating investment income not by the fund with cash invested at LGIP, but based on total cash equivalents by fund.

**The Audit Committee recommends a prior period adjustment removing investment income credited to the General Fund and included in the fund balances for the fund(s) which had cash invested at LGIP, as it had historically been done, prior to FY 2018-2019.**

**Additionally, the committee recommends the approach for distribution of investment income be based solely on cash invested by fund or to have**

## Appendix D

### Background

2020 CAFR - Prior Period Adjustments for Capital Assets and Construction in Progress ONLY

- Community Services and Beaches - \$803,514 consisting of:
  - **Carpeting and Painting** - 8 "projects" - \$78,582
  - **Paving** - 38 "projects" - \$435,672
  - Pre development - High School Ball field - \$77,216
  - Pre development - Community Services Master Plan - \$212,044

2021 Concepts and Assessments (Pre development) and abandonments which were **NOT** considered for charge off to expense. Amounts should have been expensed based on Moss Adams report 1/14/2021 and accepted by Board of Trustees on 2/10/2021 - Cliff Dobler memo dated 5-31-2021. More detail on Appendix E

- Burnt Cedar Pool - \$219,802 (includes \$119,498 of repairs completed in 2019 and abandoned in June 2021)
- **Incline Beach Bldg - \$216,131**
- Mountain Golf Course Club House - \$328,954 (includes \$150,751 for repair costs to open prior to major rehab)
- **Tennis Center** - \$68,621
- Incline Baseball Field - \$120,268
- **Diamond Peak Master Plan** - \$217,830
- **Total - \$1,171,606**

2021 CAFR - Initial Charge off (per Davis Farr) of \$866,504 in second draft and amounts removed in third draft (throw back)

	<u>Initial</u>	<u>Throw Back</u>	
• General Fund -	\$28,691	\$ 8,800	
• Utility Fund -	389,080	316,885	Wetland repairs \$1743K
• Community Services -	369,194	314,106	Parking and Cart Path repairs \$211K
• Beaches -	66,266	37,640	100% Parking and Boat Ramp repairs
• Internal Services -	13,273	ZERO	
total	\$866,504	\$677,431	
		DIFFERENCE \$189,073	
		MEMO \$167,751	WHY?

2021 CAFR - Additional Charge Off for Pipeline - \$3,179,000 DID NOT INCLUDE 2020 AND 2021 EXPENSES OF \$182,023. Costs included the Granite assessment report, the Jacobs report on the Pond, and an unknown amount of Staff time.

Other Charge offs not considered - ACQUIRED UNDER NEW BOARD POLICY AND PRACTICE

- Staff Uniforms at DP 2016-2017 \$115,739
- Rental Skis at DP 2016-2017 \$466,104
- Undepreciated amount - To be determined

## Appendix E

### Incline Village General Improvement District Capitalized concept and assessments for potential charge offs

#### Burnt Cedar Pool

Repairs to circulation system -in 2019	119,498
Conceptual Design - TSK 2020	32,200
Schematic Design - TSK 2020	68,104
	219,802

#### Incline Beach Building

concept design and cost estimates - Bull Stockwell - 2016	216,131
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<b>Total Beaches</b>	<b>\$ 435,933</b>
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#### Mountain Golf Course

Global Golf and BRG Architecture - New Clubhouse 2012/2014	132,203
Temporary Repair Costs for 2019 season before new rehab	150,751
Schematic Design Cart Paths - Lumos and Staff Time - 2020	46,000

#### Tennis Center

Lloyd Design - evaluation 2015/2016	42,120
Concept Design - BJG Architecture 2018	26,501

#### Incline Ball Fields

LPA - Concept Design - 2017	41,000
Schematic Design - Lloyd Consulting Group - 2017	73,930
Other unknow costs for concepts put in unbudgeted project	5,338

#### Diamond Peak

Concept Master Plan SEC Group 2014	156,030
Permit Submittals to Forest Service SEC Group 2015	29,000
Biological surveys - Hauge Brueck Associates 2019	32,800

Total Community Services	<b>\$ 735,673</b>
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**\$ 1,171,606**