

## MINUTES

### **AUDIT COMMITTEE MEETING OF FEBRUARY 7, 2023 Incline Village General Improvement District**

The Audit Committee meeting of the Incline Village General Improvement District was called to order by Audit Committee Chair Michaela Tonking on Tuesday, February 7, 2023 at 6:01 p.m. via Zoom.

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

On roll call, present were Mick Homan (Member-At-Large), Raymond Tulloch (Trustee), and Michaela Tonking (Committee Chair). Vito Brandle (Member-At-Large) joined the meeting at 6:14 p.m.

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

Cliff Dobler read from a prepared written statement which is attached hereto.

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

Chair Tonking asked for changes to the agenda and asked for a flexible agenda. Trustee Tulloch stated that there have been many memorandums submitted by members of the public that are not on the agenda; he suggested getting a full list of outstanding memorandums for the new Audit Committee to address. Chair Tonking stated she would still like to have some of that discussion which should include how correspondence will be handled moving forward and discuss agenda items 3 and 4 together. Member-at-Large Homan stated he thinks the Committee could discuss the memorandums and have a discussion on a process of how correspondence will be handled. Trustee Tulloch stated he does not think a new agenda item can be created to discuss the process of correspondence moving forward. District General Counsel Melissa Crosthwaite stated it would be fine to combine the discussion for agenda items 3 and 4; she explained that they could be tabled too but that is up to the Committee, as long as they are staying within the confine of the agenda item descriptions. Trustee Tulloch stated he sees an issue with discussing the process for correspondence, as he does not see that as an agenda item. Member-at-Large Homan mentioned that the agenda states “discuss next steps” which could be open ended. Chair Tonking stated the way the correspondence has been listed is a new format on how it is handled so she believes this is a process discussion. Trustee Tulloch stated he sees the agenda item as to only “review and discuss possible next steps on outstanding accounting and financial reporting issues”. District General Counsel Crosthwaite stated the agenda item includes the language “and through past correspondence” so she thinks this can be accomplished with items 3 and 4. She stated the Committee could table the item and have Staff work on something very specific. She continued

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that if the Committee would like to discuss a process, this is within the “next steps” portion of the agenda item so there is room to be able to discuss it; if she thinks the Committee is going beyond the scope of that, she will jump in. Trustee Tulloch stated there is only a partial listing of the outstanding issues and there are more than 20 that are outstanding. Chair Tonking stated that many of the issues were postponed by the previous Audit Committee and she thinks it is the perfect time to discuss it and determine if those issues that were previously postponed should be addressed by the new Audit Committee.

Trustee Tolluch made a motion to remove agenda items 3 and 4 from the agenda.

Member-at-Large Brandle arrived at the meeting and was caught up to speed on the discussion that has ensued thus far. Director of Finance Navazio acknowledged that there have been dozens of memorandums and Staff focused on items that were submitted to the prior Audit Committee where action was deferred and additional new items. He continued that there were memorandums that were submitted and agendaized at prior meetings; per the meeting minutes, the Committee took no action or in some cases, they were forwarded to the Board of Trustees and they either took action or did not take action. He stated Staff did not go back and look at every memorandum that was submitted to the Committee; one or two might have been missed but the intent was not to have a comprehensive list of every memorandum that has ever been to the Committee; it was to identify the memorandums that have been sent to the Committee recently where the Committee did not discuss or provide direction. Member-at-Large Homan stated that from a process and Board policy standpoint, there are a number of them that carry over from the prior Audit Committee, including a number of them from Mr. Dobler when he was on the Committee, and some other memorandums that have come in subsequent to that time. He continued that he thinks the Committee needs to have a discussion on how they will be handled; he sees them a bit different coming from a member of the public versus a member of the Audit Committee so he would like to discuss that as part of the process moving forward. Member-at-Large Brandle asked if the Committee proceeds with the agenda item(s) regarding submitted memorandums, if it excludes them for discussing other items that may have been missed? District General Counsel Crosthwaite stated that this can be discussed now and also agendaized in the future if the Committee feels there was something that was missed.

There was no second to the motion; the motion died.

Chair Tonking made a motion for a flexible agenda. Member-at-Large Homan seconded. Chair Tonking called the question and the motion passed unanimously.

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

**D.1. Follow-up on Final Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2022 as presented to the Board of Trustees at their meeting of December 14, 2022 and filed with the State of Nevada Department of Taxation. (Requesting Staff Member: Director of Finance Navazio)**

- a. Board memorandum prepared for meeting of December 14, 2022**
- b. Correspondence from State of Nevada Department of Taxation, dated January 24, 2023**

Director of Finance Navazio provided an overview of the submitted materials. Member-at-Large Homan referenced the letter submitted by Mr. Dobler on January 9, 2023 and Staff's responses; he stated they are consistent with his understanding of accounting rules and his reading of the financials; he is satisfied with the answers. He referenced the table and stated that the reason why the accounting rule is out there is to ensure you are disclosing balance sheet obligations to ensure there are no liquidity issues that you are facing because of things you have committed to in the future; he does not get concerned that there are a couple of items on there. He continued that he does not see a need to revise it to take them out especially given that the authorities have already been informed. He stated it is an area where most are concerned about leaving things off the list and it is offline information which is a difficult process for most entities to ensure that there things on the list. He continued that he would not mind going through that process and that the policy is for identifying items that are put on the list to ensure obligations are being captured. Member-at-Large Brandle stated that if one error were chosen, it is good that more items were added, rather than left off the table. He asked what fixes are being done to ensure that the future and subsequent events do not get missed? He continued that he can survive with adding too much, but missing items is where the issue is and he wants to ensure that they do not fall back into another mistake in another year. Director of Finance Navazio stated that with Tyler Munis, one of the things that is happening is when contracts or

purchase orders are approved and put in the system, those dollars are being encumbered. He stated that at year-end, Staff would be in a much better position to put a list together of all of the contracts and purchases where dollars were not spent but there are still encumbrances. He continued that perhaps the conversation should be at what dollar figure Staff cuts that list off because it is an exhaustive list. He stated that what Staff has done in the past, and absent any formal encumbrances, was identify the contracts associated with the higher visibility projects that there may be an interest in without effort to be comprehensive. He continued that going forward; Staff should be able to produce a list as of June 30<sup>th</sup> of all of the unexpended encumbrances and then the question is if there is a dollar threshold that would be appropriate that could be used in efforts to be consistent in using the list in the future. District Controller Martin Williams mentioned that the Tyler system has a contract module, which would track all contracts so there would be 1 system and 1 record to have the entire package. Trustee Tulloch referenced pages 4 and 5 with regards to providing Mr. Dobler responses to his memorandums and asked if it was a complete response that addresses all issues raised or if it is a selective response? Director of Finance Navazio stated that if Staff was asked to respond to correspondence from the January 9<sup>th</sup> and January 14<sup>th</sup> memorandums, the presented responses are what would have been prepared. Trustee Tulloch asked if responses have been provided with regards to all of the issues raised by Mr. Dobler on January 9<sup>th</sup> and January 14<sup>th</sup>? Director of Finance Navazio stated he would need to go through it, but that was the intent, for at least the ones that warrant a response. Trustee Tulloch requested an explanation on the ones that warrant a response. Director of Finance Navazio stated he would like to take his statement back, and this is Staff's response to the memorandum of January 19<sup>th</sup>. Chair Tonking asked if Trustee Tulloch feels there is an area missing that he would like some feedback on. Trustee Tulloch stated he is trying to determine if the response is to everything raised in the memorandums from January 9<sup>th</sup> and January 14<sup>th</sup>; the memorandum from January 9<sup>th</sup> is comprehensive, and seems to have been dealt with 3 bullet points. Chair Tonking stated that the Director of Finance has indicated the areas he responded to and felt as if they were ones with errors or he felt should be addressed by the Committee; she asked if there are an areas within the memorandum that he would like the Committee to discuss or to receive a management response to. Trustee Tulloch stated he would like a management response explaining how they define what is warranted vs. not warranted. He continued that he would also like a clear answer as to whether everything has been responded to. Director of Finance Navazio referenced the memorandum dated January 9<sup>th</sup> and stated Staff responded to the

comments in the memorandum and incorporated a response to the part of the memorandum from January 14th that was related to note 18. Trustee Tulloch asked if Staff responded to everything in the memorandum. Chair Tonking stated that she believes Staff has responded to the essence of the memorandum and this is something that can be discussed under agenda item 3. She asked Trustee Tulloch if there is an area from the memorandum that he feels is not answered that he would like management's opinion on. Member-at-Large Homan stated he looked at the January 9<sup>th</sup> memorandum and the responses side by side and it looks like the points that were raised by Mr. Dobler were addressed. He referenced the contractual committee table that was discussed and stated the Director of Finance answered this.

**D.2. Review and discuss draft report from Davis Farr, LLP related to supplemental engagement to review compliance with Capitalization policies and procedures and best practices (Requested by: Director of Finance Navazio; Prepared by Jennifer Farr, Partner, Davis Farr, LLP)**

Chair Tonking stated Ms. Farr was not able to join the meeting; Director of Finance Navazio is present to answer questions, knowing that some of them might have to go to Ms. Farr. She continued that this is a draft report so any feedback would be key on this report. Director of Finance Navazio provided an overview of the submitted materials. Member-at-Large Homan stated the report is great and demonstrates the progress that Staff has made to solve many problems that were identified in the past; he thanked Staff for turning it around getting the result in the report. He continued that hopefully there are processes in place with the new system so that this is sustainable and there is no need to come back to this. He suggested that perhaps on a periodic basis, this be re-visited to ensure they are continuing to keep the good processes and controls in place. He asked for the rationale in them not testing the CIP Engineering overhead charges. District Controller Williams stated he could not answer that; the Auditors were given the backup for those charges, but why they chose not to test them, is a decision they made. He continued that the engineering charges have never been brought up as an area of concern; the overall engineering charges in any assets that are capitalized is minimal. He stated they probably did not bother testing them because most of them are a few hours or a few hundred dollars. Trustee Tulloch asked when Ms. Farr would be available to answer these questions and stated he challenges the statement that engineering charges are not normally more than a few thousand dollars. He referenced the effluent storage pond and stated he has concerns when he sees that 80% of the

project cost has been expensed and capitalized 20% of the project cost incurred. He stated this is a project that has not been billed and it appears that the capitalizing is subjective and not tied to specific invoices; he asked what the asset is that has been created. Director of Finance Navazio stated that for some time, the project that was defined regarding the effluent storage pond was the pond-lining project; there was a lot of work that went into planning, engineering and designing of the effluent pond lining project. He continued that late last fiscal year; the Director of Public Works came before the Board of Trustees with the updated assessment and a recommendation, supported by the Board of Trustees, to pivot from a project to line the existing pond to a storage tank project. He stated that from that point forward, Staff essentially drew a line and proceeded with a design and construction of a storage tank; the cost associated with this will be capitalized and looking back at the cost that were incurred to date related to the predecessor pond lining project, Staff looked at expensing those costs as the pond was not going to be lined. He continued that there are costs that are eligible to capitalize that would have been incurred regardless if it were for the pond lining or the storage tank; this was discussed with the Auditors and Staff provided them with the information and brought the Engineering team in on the conversation. He stated that while the memorandum stated there was some subjectivity in making that decision, it was reasonable and the Auditors did not have a concern; the alternative would have been to expense everything up until that decision point and then capitalize from that point forward, but then Staff would be expensing costs that are eligible and appropriate to capitalize. Trustee Tulloch asked to be pointed to the asset that was created. Director of Finance Navazio stated the asset does not exist yet and has not capitalized it yet; the 20% is in construction and progress and is on the balance sheet for the financial statement for the year ended June 30<sup>th</sup>. He continued that it would be capitalized and included in the calculations of the capital assets that will be depreciated once the tank is constructed and put in service. Trustee Tulloch stated that the project and costs were associated with lining the pond, pivoting to the storage tank and then a 3<sup>rd</sup> solution, so he is unclear as to what cost are eligible to be capitalized that contribute to the solution on the table. Director of Finance Navazio stated this was reviewed with the Auditor and if this is an item that the Committee wants Staff to bring back, they could so that. Trustee Tulloch stated he would like to see the details and that \$750,000 was previously capitalized for pond lining that is non-existent. Director of Finance Navazio stated it was not capitalized; it was in construction and progress while going down that path and when there was a pivot, Staff wrote off a portion that was no longer appropriate to maintain in construction and progress and retained

the portions that were appropriate; the Auditor did not see a problem with how this was done. Trustee Tulloch stated this was prior to the Director of Finance's tenure. Chair Tonking stated this would be a good item to agendaize; she can organize a time for Trustee Tulloch and Ms. Farr to discuss further. She continued that a list of the questions from this meeting will be collected to ensure that Ms. Farr receives them and can respond to them. Trustee Tulloch stated he would also like to have a review of the engineering charges be agendaized. Chair Tonking stated she agrees that the engineering charges, minor or not, should be addressed and understood for transparency purposes. Trustee Tulloch stated he is surprised the packet does not include a review of the Moss Adams recommendations and is wondering why Davis Farr did not include that as part of their review. Director of Finance Navazio stated the purpose of having the agreed upon procedures is so there is clarity at the front end as to what the work will entail; the focus was on compliance with Board policy. He continued that the capitalization policy was updated in January; the Committee specifically directed the Auditors to use the District's Capitalization policy that was in effect from July 1<sup>st</sup> to December 30<sup>th</sup> for all transactions occurring during the first 6 months of the year and the new updated Capitalization policy that was in place as of January 1<sup>st</sup> for transactions through the end of the fiscal year. He noted that the Auditor's procedures, as outlined in the memorandum and approved by the Committee last May, was to apply the compliance with Board policy. Trustee Tulloch stated he blames the guy that signed the letter. Director of Finance Navazio stated that Committee Members had input into the scope of work; there was a lot of detail and discussion about it. He continued that the Audit work that was performed was in accordance with the procedures that they outlined and that the Committee signed off on.

**D.3. Review and discuss possible next steps on outstanding accounting and financial reporting issues identified by former Audit Committee and through past Correspondence. (Requesting Trustee Audit Committee Chair Michaela Tonking)**

Chair Tonking provided an overview of the submitted materials. Member-at-Large Homan stated laying it out on a matrix spreadsheet is a good way to get everything listed and noted all of the prior Audit Committee items need to be listed. He continued that he would like to see quantitatively what the numbers are as this will allow the Committee to look at it and make a judgment call on whether it is material or not. He stated that Chair Tonking's observation on getting a volunteer assigned to work with management as a first pass through on some of the items and come back to the Committee,

especially if everyone is getting the memos, is a good process. He continued that he thinks that Committee needs to have a discussion on what to do with correspondence from the public that is received going forward; this will depend somewhat on what the Board of Trustees would like them to do. He stated that he would like some legal perspective on if there is a requirement that the correspondence get publicly addressed by the Committee. He continued that he is not sure if they should select a volunteer during this meeting to be a liaison or wait, as there will be will be new Committee Members and solicit them to figure out who is best to fill the role. Chair Tonking explained that the Board of Trustees receives correspondence and some of it gets agendized and some of it is responded to individually. She referenced the Whistleblower policy and the importance of staying within the policy. She stated the Committee could receive correspondence and decide if there is no action required if it is not within the Whistleblower policy; hopefully a liaison can direct the process. She continued that she agrees that there is not currently a full Audit Committee and there is a Board of Trustees meeting coming up where there may be new members on the Committee so perhaps they hold off on assigning the liaison. Director of Finance Navazio referenced the process of correspondence and asked that there be clarification as to whether or not there is an expectation that Staff is providing a response to memorandums as the come in. He continued that it is his recommendation that correspondence be forwarded to the Committee as it is received and that the Committee refer to Staff as to what items they would like them to respond to. Trustee Tulloch stated he thinks the question of materiality is an important point since in the 3 years he has been on the Committee, he has seen the definition of materiality move all over the place; he thinks the Committee needs to come up with a more consistent definition as it changes every time the question comes up. He continued that it sounds like a process is being developed and he is not sure if it is consistent with the agenda or if it should be agendized for the new Committee. He stated that all of the correspondence should be published as part of the Audit Committee package and the Audit Committee should decide if there should be follow-up required. Chair Tonking asked District General Counsel if she would jump in if they are moving away from agenda. District General Counsel Crosthwaite stated that she would jump in and that the Committee is speaking generally about correspondence so far and how it will be handled which is fine. She suggested that the appointment of a liaison be put off until the next meeting. She stated that there is all types of correspondence that could be submitted; she is not aware of any general requirement that every single correspondence has to have a particular action by Staff or any of the bodies. She continued that it is a case-by-case



basis as to what type of correspondence it is and how it is addressed, if it is addressed. Chair Tonking stated she hopes ideas can be presented in order to create an item to be voted on. Trustee Tulloch stated that if it is going to be agendized then the ideas should be surfaced at that time at the next meeting. Member-at-Large Homan stated he agrees that it should be agendized as far as the decision and the liaison; he noted that the new Audit Committee might not want to have a liaison so it would be pointless to do that now. He continued that in effort to try to get this moving along and try to get some of this resolved, it would be a good idea to have some options that the Committee can start on at the next meeting so they aren't freeform thinking and they can focus on a couple of options that the Committee could refine to get it moving. Member-at-Large Brandle asked if a motion could be made now to get some activity, with the anticipation of a possible new majority on the Committee coming on board who may want to change it later. Chair Tonking responded with no because it is not agendized for this meeting. District General Counsel Crosthwaite referred the Committee back to the language on the agenda. Member-at-Large Brandle stated that as the Committee looks at correspondence and next steps and regarding materiality, it is probably easier for Staff to come in with dollar amounts and let the Committee factor in the materiality. He continued that he would prefer to have a liaison because of the volume and he would aim more towards action of the Committee because he feels that their inability to answer memorandums or feedback fast enough causes them to cycle; he would like to deliver more to the community. Chair Tonking referred to correspondence that had been deferred by the previous Audit Committee and stated that she thinks this method would allow those to have some sort of action set so that the Committee would know where everything stands as they enter into each new meeting. She also reminded Committee Members that if they need to use their cell phones, that they do not end up on the screen. Member-at-Large Brandle asked if there is any kind of double jeopardy that occurs if an item is addressed once and it cannot be brought up again. District General Counsel Crosthwaite stated that there is no double jeopardy; the Committee can change their minds about things and re-agendize them. She stated if they wanted to change their mind at a meeting about something, there is a process for a motion to re-consider. Member-at-Large Brandle asked if the Committee has the choice on whether to agendize something or not. District General Counsel Crosthwaite stated that if the desire of the Committee is to not look at a particular agenda item, nothing requires them to. Member-at-Large Homan asked if it would be appropriate to direct Staff to work with 1-2 Audit Committee Members to come up with some recommendations for the next Audit Committee meeting on how to handle this going forward in

effort to get this moving? District General Counsel Crosthwaite stated a motion for this is not necessary and the Committee could direct Staff to reach out to 1 or 2 members to put something together for the next agenda. Chair Tonking stated she is onboard with this idea if there are 1-2 Members who are interested in volunteering for the role. Member-at-Large Homan stated he is willing to volunteer. Trustee Tulloch stated he understands the desire of everyone wanting be action man and dive in and do things; he is reluctant to having a Committee liaison work with Staff to provide responses to comments by the public. He continued that this is defeating the objective of an independent Audit Committee and he thinks the committee needs to be sensitive to that, as well as be careful with having 2 Members work with Staff to come up with a process and an agenda item as to not violate the Open Meeting Law. He stated that individual Committee Members could express a response to a member of the public but only as an individual and not as a Committee view. Chair Tonking stated it was not her understanding that the liaison members would be responding to the memorandums, but rather helping flag certain memorandums by importance for the Committee to review in effort to keep the process moving. She stated her understanding from the Open Meeting Law training; they are allowed to collaborate with 2 members. District General Counsel Crosthwaite stated her understanding of what the direction is includes having Staff work with 2 members to put together an item on the agenda that would explore certain next steps; it is fine to have 2 members which is less than a quorum. Trustee Tulloch stated there is an Audit Committee of 4 present and asked what the quorum is. District General Counsel Crosthwaite responded that it is a 5 Member body, so 3 is a quorum. Member-at-Large Brandle stated he thinks the Committee should prioritize transparency and wanted to make it clear that there should never be a point where the Audit Committee does not see something; this was not what he intended to represent. He continued that the volunteer liaison(s) should only be focused on helping to keep the Committee focused. Chair Tonking summarized that Member-at-Large Homan volunteered to be a liaison to work with Staff on preparing an agenda item on possible next steps. She referenced agenda item D.3. and asked if anyone had any concerns with the correspondence that was received that they would like to have as an agenda item in the future. Member-at-Large Homan asked if Trustee Tulloch would like to volunteer with him; he stated he wants to ensure they come up with something that they can all agree to as far as the agenda item and options. Trustee Tulloch stated he is deeply conscious about nominating 2 volunteers and noted that Member-at-Large Brandle and Homan could be nominated, due to the upcoming potential changes with the Audit Committee Members, but then corrected that statement and

mentioned he is happy with Member-at-Large Homan taking the lead on this instead. He referenced Excel spreadsheets and asked that the font size be increased to make it easier to read. He referenced the statement that the State Department of Taxation does not concur with Moss Adams recommendations; he asked if there is notification from the State Department of Taxation in writing. Director of Finance Navazio stated it is in reference on how the facility fee is reflected; it includes more than 1 conversation with the Department of Taxation when the issue first came up with regards to reporting the facility fee as a non-operating expense as opposed to an operating expense. He continued that their comment was that not only did they believe it was appropriate as an operating expense but it had been reported as such consistently in the past when the community services funds were enterprise funds. He stated he does not have it in writing; this item was previously communicated to the Committee and Board of Trustees and it was one of the considerations as an issue that appears to still be outstanding. Trustee Tulloch stated that it would be strong language coming from the Department of Taxation; he would like to see this in writing. Director of Finance Navazio stated he would follow up with them and explained that it is a comment in the State forms that the District files with the State as part of the budget. He continued that they requested that the facility fee be reported as an operating revenue on those forms. Trustee Tulloch stated it is a serious statement by the Department of Taxation and it raises red flags for him; it raises questions over whether the Moss Adams recommendations can be accepted or not. He continued that he is surprised that the State Department would give a ruling such as that. Director of Finance Navazio stated this was not a recent conversation and that it was a discussion that happened at the time the issue came up a year and a half ago. Trustee Tulloch asked that it be followed up on and to get something in writing. Member-at-Large Homan stated it would be helpful to know in the context of the Moss Adams report, if it was an observation of it being a best practice or if it were a requirement under the rules; it would have some bearing on the strength of the documentation that would be needed to overcome that. Director of Finance Navazio agreed that it would be helpful to bring this back; he can circle back with the Department of Taxation. He noted the packet includes an attachment from a report that came to the Audit Committee and Board of Trustees specific to this issue that shows the history of how the District has historically reported the facility fee for as far back as they could go when the community services funds were enterprise funds; the issue is operating vs. non-operating but is a non-issue in the years when the District reported them as governmental funds. He continued that Moss Adams made an opinion; past and current Auditors have looked at it.

He stated he would bring back any relevant comments from the State Department of Taxation; it is a long-standing practice and interesting issue to continue to discuss. Trustee Tulloch stated regardless if it was a long-standing practice, many of the them have changed and he has a concern as this issue raises serious ethical questions for him. Director of Finance Navazio stated suggested bringing the Auditor, Moss Adams and the State to the table and let them hash it out. Trustee Tulloch stated he sees many things that state, “no action needed” and asked for a further explanation on these items.

**D.4. Review, discuss and determine if any further action is required for the following correspondence and memos received by Audit Committee. (Requesting Trustee: Audit Committee Chairwoman Michaela Tonking)**

Date	Subject	Author
12-14-2022	Audit Finding	Chris Nolet
1-9-2023	Observations and potential corrections to AFCR for June 30, 2022	Cliff Dobler
1-9-2023	GFOA Certificate of Achievement (	GFOA
1-14-2023	Lack of FULL disclosure in Note 18 of the ACFR FOR FISCAL YEAR ENDING JUNE 30, 2022 and false approval of contracts to avoid requirements under NRS and Board Policies	Cliff Dobler
1-21-2023	Unauthorized change in reporting from fiscal 2021 to 2022 for the Community Services venues	Cliff Dobler
1-23-2023	Item E.3A - Report - Facilities (Weddings and Events) - Multiple errors or lack of complete information - Board Packet 12-14-2022	Cliff Dobler
1-30-2023	Follow-up on my memo on January 9, 2023 - Investment Earnings 2022 fiscal year AFCR	Cliff Dobler
1-31-2023	Violation of GASB #34 - Improper Reporting of Internal Services Fund as part of Proprietary Funds 1) Statement of Net Position (Exhibit B), 2) Statement of Revenues Expenses and Changes in Net Position (Exhibit C) and 3) Statement of Cash Flows (Exhibit D). Page 24 to 27 of the June 30, 2022 Annual Comprehensive Financial Report.	Cliff Dobler

Chair Tonking stated she feels the list of correspondence should end up in whatever the Audit Committee decides on; she proposes that for now they remain in the same format shown on this meeting agenda but is open to feedback. Member-at-Large Brandle asked if this review would exclude the January 9<sup>th</sup> and 14<sup>th</sup> correspondence as they were addressed earlier? Chair Tonking stated there was discussion on those items and she does not believe there is any further action long term needed by the Committee. Member-at-Large Homan stated there was just one item with respect to the contractual tables that needs to be followed up on. It was noted that the Committee Members would provide feedback on some of the items at this time. Member-at-Large Homan referenced the January 21<sup>st</sup> correspondence

and the question that was raised as to why the supplemental information is no longer provided; he stated it is a good question and would be interesting to know why the format changed. He referenced the January 30<sup>th</sup> correspondence and the questions that were raised about cash, cash equivalents, investments, etc. and stated there are some good points raised about longer term maturities being included in cash and cash equivalent; he mentioned it would be nice to have an explanation on what is being done with this and why. He referenced the January 30<sup>th</sup> correspondence again and noted that the internal service funds are included in the sub-total rather than after; he is not concerned about a lack of disclosure as all of the data is there and can be calculated, but it is more of a formatting question. He continued that there was correspondence from Mr. Nolet regarding cash reconciliation and he raised a good point about the account itself being material; he asked how to get around not having a material weakness, which is a question for the Auditor. Chair Tonking stated that is good feedback to get management response on with the correspondence that has been received; she noted there have been some grammatical or date inconsistencies but it's not necessarily that the data is not there. Member-at-Large Homan stated he does not get too concerned over grammatical inconsistencies and has no problem with the language being cleaned up over time. Director of Finance Navazio stated he would need to follow up on the Auditor on many of these items, including some direction they provided on the presentation, supplemental information and internal service funds related to Mr. Nolet's comments. Trustee Tulloch referenced the community events, year to date numbers and revenues; he agrees with Mr. Dobler with regards to the inconsistencies and he is unsure what it is trying to show. Director of Finance Navazio stated this was in regards to a comment that was made based on a presentation by the Director of Community Services regarding the year-end status for golf, facilities and events. He continued that Staff would follow up with the Director of Community Services on the information that was provided. He stated there will be times where correspondence is sent to both the Board of Trustees and the Audit Committee Members and perhaps it will be discovered through this process how Staff is being asked to respond so they are providing the feedback that both the Board of Trustees and Committee Members are requesting. Trustee Tulloch stated this is one of his concerns; there seems to be no clear process for the Board of Trustees dealing with correspondence. He referenced the venue fees paid for community events and stated it works out at \$68.00 per event, yet they are told they cannot afford to use the Chateau for Board Meetings because of the costs associated. He continued that he has heard from community groups complaining that they are charged

\$500.00, yet it is showing up as \$79.00. He stated he supports the points made by Member-at-Large Homan. Member-at-Large Homan referenced a correspondence that raises scope and charter questions for him; it is an operating report that is provided by one of the people to the Board of Trustees. He asked if the Trustees understand it and if they are getting the information that they want and are asking for; he questions whether it is in the Audit Committee's scope. He continued that if there are questions about the accuracy of some of the numbers that would lend itself to questions about the accuracy of the broader audited financials, he can see where it would come under the Committee's charter; he suggested that there be a discussion with the Board of Trustees to assist in figuring out if it is something the Committee should be looking at. Chair Tonking stated that is a good point and referenced Trustee Tulloch's comment earlier with regards to the Board of Trustees not having a good process on how to handle correspondence; the Audit Committee may have a better process on how they are handling correspondence so many times it ends up with the Committee. She continued that she thinks it is important that they are not infringing on that scope. She stated it would be important for the Board of Trustees to determine how they will handle correspondence to solve the grey area on this. Trustee Tulloch stated that correspondence goes to both places because some of it includes operating reports; there have been some inconsistencies in terms of revenue, which is why it is forwarded to the Audit Committee for review. He continued that sometimes it is frustration because correspondence goes to the Board of Trustees and seems to be ignored; it seems that there is a perception that the Audit Committee is more likely to consider the correspondence. He noted that this is a personal view and observation. District General Manager Winquest stated it was a season ending operational report provided by the Director of Community Services on the golf courses; there were some members of the Board of Trustees that provided feedback regarding inconsistencies and had noted where they wanted to see clarifications. He continued that at this time and based on the nature of the information, he does not see how it applies to the Committee; this is his opinion. He stated he hopes the Board of Trustees collectively provides feedback to Staff as far as issues they have with the report so that when it is brought back, Staff is providing the information they would like to see. He continued that if there are any clarifications on the specific memorandum that was provided by the member of the community, Staff is happy to prepare a response. It was noted that this is an item for the long range calendar for future discussion.

**E. LONG RANGE CALENDAR**

Chair Tonking summarized the following items to be added to the long range calendar; discuss information regarding the contract form and how controls are working (D.1.), ask questions of Davis Farr and ensure there will be open dialogue regarding the engineering hours, why Moss Adams was not included and other questions that have come out of the Staff report. This includes discussing how often the Committee would like a supplemental scope to an audit to address these issues (D.2.), Member-at-Large Homan to work with Staff to create some recommendations on ways to handle correspondence moving forward, work with Staff to address things like better font size and summaries and obtaining a written notification from the Department of Taxation stating they do not concur with Moss Adams (D.3). Trustee Tulloch asked for follow up on a question he raised at the last meeting regarding a number for the total value spend over \$5,000; Ms. Farr was to calculate it and provide it. Chair Tonking stated another item to add is regarding the correspondence that has been received and the direction to Staff on some outstanding questions that the Committee would like addressed. Member-at-Large Homan stated he does not recall what was discussed at the last meeting; he asked for a complete list of the items on the long range calendar. He noted that it would be helpful to get the next few meetings scheduled. Chair Tonking asked the District Clerk to add these items and the items from the last meeting in the same format that is used for the Board of Trustees long range calendar. Member-at-Large Brandle referenced the Whistleblower policy and ensuring it is finalized. Member-at-Large Homan stated it would be nice for the Committee Members to determine what they would like to look at on a routine or reoccurring basis once they review the long range calendar. Trustee Tulloch agreed and stated it would be good to divvy items out quarter by quarter with a rolling calendar so as to not inundate the Committee or Staff. He referenced the Whistleblower Policy and stated it was adopted with a few modifications by the Board of Trustees at the January 11, 2023 Board Meeting; his memorandum for the meeting indicated that the Audit Committee could take a further look at it to see if there are any suggestions or changes. He continued that the Board of Trustees adopted it to ensure that there was a policy in place.

**F. MEETING MINUTES (for possible action)**

**E.1. Meeting Minutes of December 5, 2022**

Chair Tonking asked for any changes, none were submitted so the meeting minutes of December 5, 2022 were approved as submitted.

**G. PUBLIC COMMENTS\***

Director of Finance Navazio stated that District Controller Martin Williams is leaving the District at the end of the week to take on some new professional challenges; he thanked him for his work and support to the Committee over the past few years.

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

The meeting was adjourned at 8:15 p.m.

Respectfully submitted,

Melissa N. Robertson  
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 Cliff Dobler



February 7, 2023

Public Comment by Clifford Dobler to Audit Committee

This written statement is to be included in the meeting minutes

Over 4 years ago, I provided the Board of Trustees and the reformed Audit Committee detailed memorandums regarding improper accounting and reporting and a lack of disclosure in the CAFR's. An extensive list was used as a basis for the Moss Adams report which was delivered to the Board in January 2021. While the report concentrated on 4 main topics, Moss Adams also included several other items which were deemed inappropriate. 24 memorandums were provided to Moss Adams during their investigation.

Since that time through extensive research I produced over 30 additional memos for Audit Committee to review. At some time, I will provide a complete list for your review.

It was quite clear that a concerted effort, either by poor management and administration or outright suppression, has been made to avoid a review and discussion on over 20 of the memos thus violating Board Policy. These memo's stretch back to 2021

There were several Tactics used such as:

- 1) Not including memo's on the agenda
- 2) Deferring memos to the future
- 3) Outright removal of memos from the agenda
- 4) Management failure to respond to items requested by the Audit Committee

I requested Chairman Tonking to prepare a list of memo's not heard. As expected she came up with only 9 and only included 6 memos in tonight's packet. I sent her a list of 11 additional memos which were not part of her list.

I prepared a rebuttal to Mr. Navazio and Mr. Williams comments in item D.1 regarding only two memos dated 1/9/2023 and 1/14/2023. Some of their comments are so bizarre it is hard to believe.

A large number of memo's involved the improper capitalization of routine repair and maintenance expenses. It appears, based on the delayed receipt of the "CIP Activity by Project report for fiscal year June 30, 2022" that many current year capital costs were expensed thus concurring with my memorandums. That being said, there has been nothing prepared or presented on the several millions which were improperly capitalized the previous 5 years. Instead, some of the prior year costs were improperly buried in current year expenses rather than reported as prior period adjustments (see 2021). Needless to say there has been no consistency in treatment other than to avoid prior period adjustments. In some cases, Navazio has flipped flopped agreeing to report items one way then reporting them another way.

Let's start playing the game fairly and start over again reviewing my memos when new members are added to the Audit Committee tomorrow.