

MEMORANDUM

TO: Board of Trustees

THROUGH: Matthew Dent
Audit Committee Chair

FROM: Sara Schmitz

SUBJECT: Review, discuss and possibly adopt the Audit Committee Charter

**STRATEGIC
PLAN REFERENCE(S):** Long Range Principles #2 and #6

DATE: March 13, 2020

I. RECOMMENDATION

That the Board of Trustees makes a motion to adopt the attached Audit Committee Charter to supersede the language contained in Policy 15.1.0. effective immediately.

II. BACKGROUND

Policy 15.1.0 Accounting, Auditing, and Financial Reporting – Audit Committee needs to be revised to more robustly define the oversight responsibilities.

III. ALTERNATIVES

As deemed appropriate during discuss of this topic.

IV. STRATEGIC PLAN REFERENCE(S)

Long Range Principle #2

The District will ensure fiscal responsibility and sustainability of service capacities by maintaining effective financial policies for operating budgets, fund balances, capital improvement and debt management.

Long Range Principle #6

The District will engage, interact and educate to promote understanding of the programs, activities, services, and ongoing affairs.

- Promote transparency in all areas including finance, operations and public meetings.
- Provide clear, concise and timely information in multiple, publicly accessible formats.
- Ensure that both internal and external communication is responsive, comprehensive and inclusive.

V. BUSINESS IMPACT

The Audit Committee, Board, and District leaders are enabling all of staff to become actively engaged with the oversight of the Districts finances.

AUDIT COMMITTEE CHARTER

Purpose

The primary function of the Audit Committee (“Committee”) is to assist the Board of Trustees in fulfilling its responsibilities in accordance with Nevada Revised Statutes, District Policies, Practices, Ordinances, and Resolutions by providing oversight over the District’s financial statements, the systems of internal controls, the internal audit plans and reports, and the independent external auditor’s assessment of financial statements. The Committee will provide open communication and maintain strong working relationships with the IVGID Board of Trustees, the General Manager, Director of Finance, independent Internal Auditor, and the independent external auditors.

Scope

The Committee shall provide independent oversight over the financial reporting process by being informed of all significant accounting policies and financial reporting matters by reviewing the annual financial statements and disclosures with management and the independent external auditors, by reviewing the auditors’ report of findings and recommendations with management and the auditors, and by evaluating the performance of the independent external auditor on an annual basis.

The Committee will review and make recommendations to the Board of Trustees on the External Auditors scope of work to audit the District’s Comprehensive Annual Financial Report, and upon Board approval of the engagement of the External Auditor, sign the engagement letter prior to the State’s March 31st engagement deadline. The Committee will be responsible for reviewing and approving Management’s Representation Letter to the External Auditor prior to submission to the External Auditor.

The Committee shall provide oversight over internal controls by assuring that systems of internal controls are being established by management and these systems are being reviewed on a regular and systematic basis for functionality and effectiveness by the independent Internal Auditor and/or by independent external auditors.

The Committee shall specify the purpose, authority, and responsibilities of the independent Internal Auditor. The Internal Auditor shall maintain independence, objectivity, professional proficiency, integrity, due professional care, and diligence in the performance of these responsibilities. To ensure independence, the Internal Auditor will be hired by and report to the Committee Chair.

The Committee shall review the work of the Internal Auditor by understanding how internal audits are conducted; by reviewing and approving the risk assessment and annual work plan of the Internal Auditor; by reviewing all audit reports; and by reviewing the annual report of audits completed, significant findings, and status of corrective actions.

AUDIT COMMITTEE CHARTER

Organization

The Committee shall consist of five (5) voting members to include a maximum of three Board appointed Trustees and a minimum of two qualified at-large members. Non-voting members will be designated by the Committee Chair as needed. The Committee can be expanded to an odd number. Recommendations for expanding the number of voting members will be approved by the Committee and submitted to the Board of Trustees for approval.

Committee members shall be independent. They shall not accept any consulting, advisory, or other compensatory fee from the District and shall not be an affiliated person with the District or any subsidiary thereof (applicable to at-large members only).

- Voting Trustee Members of the Committee shall be appointed by the Board of Trustees for a two year term. In the event a Trustee's term on the Board expires before the end of the two-year term, the Board will appoint another Trustee to complete the term on the Committee or request the Committee appoint an additional at-large member.
- Two other Voting Members: shall be appointed by the Committee from at-large with appropriate expertise with staggering two-year terms.
 - For the first appointment, one member will serve a one-year term and the second will serve a two-year term.
 - Each subsequent appointment will serve two-year terms.
- The Chair may request members of management or others to attend meetings in order to provide pertinent information or advice as necessary.
- The Independent Internal Auditor will provide assistance to the Audit Committee.

At least one member of the Committee should be a financial expert with understanding and experience in generally accepted accounting principles, financial statements, internal accounting controls, auditing of financial statements, and audit committee functions.

One voting member of the Committee shall be appointed by the Committee to be the Chair. The Chair will schedule all Committee meetings and provide Committee members with a written agenda for each meeting. Committee Members may request agenda items for the Chair's consideration and approval.

The Independent Internal Auditor will be responsible for ensuring the Committee members receive appropriate and necessary briefings and training relative to internal controls, preparation of financial reports, internal audit processes, governmental regulations, and other pertinent information relative to this appointment.

AUDIT COMMITTEE CHARTER

The Chair may request members of management or others to attend meetings in order to provide pertinent information or advice as necessary.

The voting Committee members are limited to two 2-year terms which may be extended in the event there are no interested and qualified applicants.

Responsibility

The members of the Audit Committee shall be responsible for the following:

1. Meet at least four times a year or more frequently as circumstances require.
2. Review monthly and quarterly financial reports.
3. Review the Board and Management's compliance with District Policies, Practices, Ordinances, and Resolutions.
4. Periodically review the District's code of conduct that promotes honest and ethical conduct; full, fair, accurate, timely, and understandable disclosure in periodic reports; and compliance with applicable governmental rules and regulations to ensure it is adequate and up-to-date.
5. Evaluate managements' identification of fraud risks, implementation of anti-fraud measures and provide the tone at the top that fraud will not be accepted in any form.
6. Review procedures for the receipt, retention, and treatment of complaints received by the District regarding accounting, internal accounting controls, or auditing matters and any confidential, anonymous submissions by employees of the District and the public regarding fraud and/or questionable accounting or auditing practices.
 - Ensure an anonymous method for concerns to be submitted. (link on website for submissions)
 - Publicize the ways for the public and employees to submit a complaint, both anonymously and directly to the Audit Committee.
 - Determine if any action is to be taken and communicate with the submitter, if known.
 - Review any complaints that might have been received, their current status, and resolution, if one has been reached.
 - Ensure proper steps to investigate and resolve complaints are timely.

AUDIT COMMITTEE CHARTER

7. Conduct an annual meeting with the independent external auditors, the General Manager, the Internal Auditor, the Director of Finance, legal counsel and anyone else as desired by the Committee.
 - Inquire about significant risks or exposures facing the District. Assess the steps management has taken or proposes to take to minimize such risk and periodically review compliance with such steps.
 - Inquire about critical estimates of revenues and expenditures.
 - Inquire about off-balance sheet transactions, if any.
 - Review the policies and procedures with respect to senior management and staff expense and travel accounts with management. Consider the review of these areas by the independent Internal Auditor or the independent external auditors.
 - Review with management and legal counsel any legal and regulatory matters that may have a material impact on the financial statements related to the District's compliance policies.

8. Participate in the selection, engagement, and dismissal of independent external auditors or auditing firms doing work for the District.
 - Ascertain that the Request for Proposal for the independent audit firm retained by the District for the annual financial audit is no more than five fiscal years with those directly supervising audit staff rotating at least every two years and audit engagement partners rotating at least every three years.

9. Review the audited annual financial statements including the Comprehensive Annual Financial Report with the General Manager, Finance Director, Comptroller, and the independent external auditor.
 - Review the Auditors' Management Letter of findings and recommendations and any schedule of unadjusted differences provided by the independent external auditors relative to the annual audit of the District's financial statements with the General Manager, Director of Finance and the independent external auditors.
 - Review the independent auditors' judgments about the quality, not just the acceptability, of the District's accounting principles as applied in its financial reporting.
 - Review any significant changes required in the independent auditor's audit plan.
 - Review any serious difficulties or disputes with management encountered during the audit.

AUDIT COMMITTEE CHARTER

- Review all matters required to be discussed by Statement on Auditing Standards (SAS) No. 61, *Communication with Audit Committees*) related to the conduct of the audit. (provide SAS 61 link)
- Review the adequacy of the District's internal controls including computerized information system controls and security.
- Review with management and the independent auditor, the effect of any regulatory and accounting initiatives. Also review all critical accounting Policies, Practices, Ordinances and Resolutions used by the District.
- Review all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management of the District, the ramifications of each alternative, and the treatment preferred by the District.
- Ensure that the General Manager and the Director of Finance certify that financial reports are accurate and not misleading; and internal controls are sufficient and effective.
- Review interim financial reports with the General Manager and the financial staff to assure fair and accurate reporting.

10. Review the risk analysis and work plans of the Independent Internal Auditor including the three-year schedule of audits to be submitted to the Board of Trustees.

- Review with the Independent Internal Auditor and the Director of Finance the audit scope and plan of the Internal Auditor.
- Address the coordination of audit efforts to assure the completeness of coverage, reduction of redundant efforts, and the effective use of audit resources.

11. Evaluate the internal audit program and independent external audit program annually based on the annual report of audits performed, significant findings, recommendations, and implementation of corrective actions prior to submission of the annual report to the Board of Trustees and on any other observations and reports regarding the conduct of audits of District functions.

- Review all reports of audits, including responses by management (including implementation plans and timetable to correct weaknesses) prior to submission to the Board of Trustees.
- Any difficulties the audit teams encountered in the course of their audits including any restrictions on the scope of their work or access to required or requested information.
- Any changes required in the scope of their audits.
- Internal Audit's compliance with the Institute of Internal Auditors' (IIA) Standards for the Professional Practice of Internal Auditing.

AUDIT COMMITTEE CHARTER

12. Report Committee actions to the Board of Trustees with recommendations as deemed appropriate.
13. Hire outside consultants as necessary upon the request of the Audit Committee and subsequent approval of the Committee.
14. All legal invoices and independent internal and external auditors' invoices are to be approved by the Treasurer and the Board of Trustees Chair.
15. Review and update as needed the contract for Independent Internal Auditor services.
16. Review the Audit Committee Charter periodically and submit changes recommended by the Committee and/or the General Manager to the Board of Trustees for approval.



Accounting, Auditing, and Financial Reporting Audit Committee Policy 15.1.0

The Incline Village General Improvement District is committed to be proactive, informed, and providing the highest form of financial accountability to its parcel owners. Achieving this goal requires clear rules and procedures for making decisions and their impact on financial results. As required by Nevada Revised Statute (NRS) 354.624, each local government shall provide for an annual independent audit of all of its financial statements.

POLICY: Each year, the Board of Trustees may establish the need for an Audit Committee and appoint no less than three members to such committee. Members of the Committee shall remain in place until successors are appointed. Members of the Audit Committee should be current Board members. As a general rule, no one having managerial responsibilities that fall within the scope of the audit should serve as a committee member.

1.0 Independent auditor reports directly to the Audit Committee

The independent auditor reports directly to the Audit Committee. The Audit Committee is expected to maintain free and open communication with the independent auditor and District Staff. This communication may include periodic executive sessions with each of these parties. The independent auditor should not engage in any work that will result in billing a fee, unless authorized by the Audit Committee. This includes response to items brought forward by any internal or external source. This does not preclude the work they must perform to meet their professional responsibility.

2.0 Scope of Audit Committee's authority and responsibilities

The Audit Committee at a minimum shall have the following authority and responsibilities:

- 2.1 To select, evaluate and, if necessary, replace the District's independent auditor, and to approve all audit engagement fees and terms, subject to Board of Trustees approval.

Adopted November 15, 2017



**Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0**

- 2.2 To review, with management and the auditors, the District's annual auditor's planning, process and engagement decisions.
- 2.3 To review procedures for the receipt, retention, and treatment of complaints received by the District regarding accounting, internal accounting controls, auditing matters, or suspected fraud. Review any submissions that have been received, monitor their current status, and the document handling or disposition.
- 2.4 To review confidential and/or anonymous submission by the District's employees of concerns regarding questionable accounting or auditing matters, or suspected fraud that cannot be handled by other appropriate levels of management.
- 2.5 The Audit Committee must meet annually to consider the appointment of the District's Auditor, receive the Comprehensive Annual Audit Report and related communications. Also, if necessary to consider circumstances that arise beyond the scope of the Audit Engagement letter that could result in additional fees, and otherwise as determined the Audit Committee Chair. Meetings may be combined with regularly scheduled Board of Trustees meetings, or may be held more frequently as circumstances may require. The Audit Committee may ask members of management or others to attend the meetings and provide pertinent information as necessary.
- 2.6 To submit a written annual Audit Committee Report to the District's Board of Trustees in conjunction with the presentation of the annual audit.
- 2.7 To review and reassess, the adequacy of the Audit Committee responsibilities and recommend any proposed changes to the Board of Trustees for approval.
- 2.8 To appoint a Chair for the Audit Committee who will act as the primary contact with the independent auditor and District staff.

Adopted November 15, 2017



Accounting, Auditing, and Financial Reporting
Audit Committee
Policy 15.1.0

- 2.9 All members of the Audit Committee should possess or obtain a basic understanding of governmental financial reporting and auditing.
- 2.10 The Audit Committee will keep adequate minutes of its meetings and will report on its actions and activities at the next regular meeting of the District's Board of Trustees. Audit Committee members will be furnished with copies of the minutes of each Committee meeting.
- 2.11 The Audit Committee is governed by the same open meeting laws NRS 241 as long as three current District Board of Trustees members are on the Audit Committee and in attendance at the Audit Committee meetings.