

MINUTES

AUDIT COMMITTEE MEETING OF MAY 6, 2020 Incline Village General Improvement District

The Audit Committee meeting of the of the Incline Village General Improvement District was called to order by Audit Committee Chairman Matthew Dent on Wednesday, May 6, 2020 at 4:00 p.m. at the Chateau located at 955 Fairway Boulevard, Incline Village, Nevada. This meeting was conducted virtually via Zoom.

A. ROLL CALL OF THE AUDIT COMMITTEE MEMBERS*

On roll call, present were Trustees Tim Callicrate, Matthew Dent, and Sara Schmitz.

Also present was Director of Finance Paul Navazio.

There were no members of the public present (State of Nevada, Executive Directive 006, 016 and 018).

B. PUBLIC COMMENTS* - Limited to a maximum of three (3) minutes in duration.

Aaron Katz said he wanted to speak about General Business Item D.3. The Director of Finance suggests that the engagement letter can be amended and that he has made a couple of proposed amendments. Mr. Katz said that he has a couple of amendments and they deal with two aspects - scope of the audit and second is management responsibility. Going to the scope, NRS 354.486 speaks of the types of audits that can be performed and are acceptable. The kind of audit we have been getting perpetually is worthless so let's change the scope. Mr. Katz then went over the applicable sections (3, 4, 5, and 6) of the NRS that he previously cited and then he suggested deleting two provisions under management responsibility – b. and h. If we are going to spend the money, let's make it a wise expenditure and get something of value. He would reject Staff's proposal that the auditor do our financial statements as that would be a conflict of interest.

Cliff Dobler said talking about the engagement letter, he reviewed the memorandum and he would make one comment - the draft letter was addressed to Audit Committee Chairman Dent and not the Director of Finance so is he the rumrunner for the auditor. Staff is making a recommendation that the Audit Committee approves the engagement letter then down below, in the background which is actually not background, Staff is making two recommendations so is Staff

Minutes

Audit Committee Meeting of May 6, 2020

Page 2

talking out of both sides of its mouth not knowing for sure what you want to do. As to background, there is not a five-year contract – it is just a proposal. The annual engagement letter is required to be signed under the Board policy. Under the third paragraph, it seems that Staff has had preliminary work done however under Policy 15.1, paragraph 2.2, the Audit Committee is supposed to be working together with the management there. Under the fourth paragraph, we don't have an annual consolidated financial report, we have a comprehensive annual report so he doesn't know for sure if Staff knows what we really have. Fifth paragraph – the idea of the Audit Committee may choose to be retained as a resource for the newly reconstituted Audit Committee so you want the guys that are auditing our books to also be the teachers for the Audit Committee; he doesn't get that one. Additionally, in the engagement letter it speaks to indemnity. This clause is taking Eide Bailly off the hook and that they will never be able to be sued. He doesn't know if that is proper because it is compared to nothing. Then in the second paragraph, on agenda packet page 35, it says "an audit also includes evaluating the appropriateness of the accounting policies" well they never did that. Management told us that was the accounting policy and they didn't evaluate anything and it is still in here. It is quite of funny to talk about them considering internal controls in order to design an audit procedure.

Linda Newman said that she strongly supports the new leadership of the Audit Committee and support any changes to the Charter that ensures Committee oversight of the District's internal controls and financial accounting and reporting. She commends Trustee Schmitz for her commitment to undertaking the creation of an effective charter and trust that this Committee and all Board Trustees will take action to approve it. As the District lacks a comprehensive framework of internal controls and has suffered the neglect of previous Audit Committee oversight Nevada law, Board Resolutions, Policies and Practices have repeatedly been violated. We do not have a solid foundation for our future financial sustainability and must take corrective action now. We must engage independent experts to create and implement internal controls as well as independent accounting and legal professionals to investigate and ensure that we are in compliance with NRS 318 and NRS 354. The pile-up of memos communicating allegations of misappropriation of public funds, failure to comply with Generally Accepted Accounting Principles, misleading and deceptive accounting and reporting practices warrant your immediate attention and action. She supports this Committee's placing these important matters on the Agenda. She must, however, object to approving the Eide Bailly engagement letter. She recommends that the Committee review Mr. Dobler's and other citizens' suggested changes. She also recommends the selection of a different Audit Engagement Partner, as the last audit they supervised has resulted in a number of unresolved allegations of

Minutes

Audit Committee Meeting of May 6, 2020

Page 3

inaccurate footnotes and improper accounting and reporting. She would also object to outsourcing the District's financial statement preparation to Eide Bailly and using this firm to assist the Audit Committee. She is disappointed to learn that our new Director of Finance, along with our fully staffed accounting department cannot prepare these statements. If this is the case, she would recommend we engage a different accounting firm and hire an experienced Nevada licensed CPA to join our staff.

Frank Wright said that he is a candidate for the Board of Trustees and he has serious questions about Eide Bailly. He has watched time and time after time when they do an audit and that Eide Bailly only does what the District tells them to do and that they don't go beyond and they just gave a clean bill of health. Eide Bailly is not a full-fledged audit company rather they do the bare minimum. They don't dig into citizen provided information and he finds that to be atrocious. They need to take into consideration the complaints, interests, and information that is provided but they never call back or acknowledge that connection. They go through and give a clean bill of health and then the District brags about a clean bill of health. Everyone knows that our financials are in serious trouble and that they warrant an investigation. He hopes and prays that the new Director of Finance goes through everything and reaches out to the citizens and starts to put an end to all the speculation about the IVGID financials.

Joe Wolfe said he is speaking about General Business Item D.2. He is dead set against what the Audit Committee is recommending. It is time for them to really do their job and if you don't understand accounting, then why did you run in the first place. Why put someone on the committee that doesn't have that education; you should get the education because you represent the community. Do not appoint outside sources to your Audit Committee – do the job you were elected to do. The accusations spring up and they offer no proof because otherwise they would take them to the District Attorney.

Mike Abel said he is a thirteen year resident of Incline Village. Mainly, his comments relate to item number 3 which is the proposal by the Director of Finance to retain the firm of Eide Bailly for an audit of the District's finances. He does not think that the synapses have connected for the Interim District General Manager and the Director of Finance. Trustee Wong and District General Counsel Guinasso no longer run IVGID. It is time to recognize, like the Hutchison law firm, it is time to step away from the firms that have done disservice to IVGID. We do not need these people to rubber stamp bad work of former Director of Finance or the possible errors of our current Director of Finance. It is time to retain another firm that will do really auditing on IVGID's books not the nonsense given to us by Eide

Bailly. Furthermore, if our Director of Finance cannot prepare solid books that can face a real audit, he suggests that he seek employment elsewhere.

Margaret Martini said she strongly urges you to engage an independent accounting expert to immediately implement a system of internal controls. As we have learned from former Board Chair and Audit Committee member Kendra Wong, this District has NO written internal controls. Public records requests for our internal controls have validated Trustee Wong's statement. This material deficit has resulted in unreliable financial statements as well as violations of Nevada law and Board policies and practices. There is currently zero accountability of how our community's taxes, fees and rates are actually being spent. It is imperative for this Committee to do the job that Trustees Horan, Wong and Morris failed to do. She objects to the approval of the Eide Bailly engagement letter and request it be revised to hold the auditing firm accountable for the audit. Please consult with other jurisdictions or members of our community that have financial, accounting and/or auditing experience to compose a viable engagement letter. She also requests that a different Audit Engagement Partner be selected. She must also oppose Director of Finance Navazio's request to have Eide Bailly prepare our financial statements and act as a resource for the Audit Committee. In addition to Eide Bailly's past sub-par performance, she does not understand why our new Director of Finance cannot prepare our financial statements and why we must absorb additional costs for another entity to do so. In light of the outstanding accounting and reporting issues in the 2019 CAFRs that allegedly violate Generally Accepted Accounting Principles as well misstatements in the footnotes, it is unacceptable for Eide Bailly to prepare our statements or to provide any so-called expertise to this Committee. Please engage an independent attorney to ensure that IVGID complies with Dillon's Rule and engage an independent accounting expert to immediately resolve the alleged violations of law and errors in accounting and reporting documented in the memorandums sent by our citizens to this Committee.

C. APPROVAL OF AGENDA (for possible action)

Audit Committee Chairman Dent asked for any changes to the agenda; none were received so the agenda was approved as submitted.

D. GENERAL BUSINESS ITEM (for possible action)

- D.1. Review, discuss and provide feedback on Draft Framework for Implementing System of Internal Controls (Requesting Staff Member: Director of Finance Paul Navazio)**

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

Audit Committee Chairman Dent said that he appreciates the overview, appreciates the insight and starting to put things to paper that weren't before.

Trustee Schmitz said thank you for putting this together and that she appreciates the efforts and experience. Five essential elements of internal controls and that they all need to be present, there is one thing that is missing from this and that is the effective information and communication because Staff really all needs to be educated and informed so that these internal controls aren't just created but they become part of the culture. This may be under part one, staff training, but she just wanted to bring that up. Truly understand that you need to take a full comprehensive look but she personally feels that, while we are trying to look at that, there are specific areas of concerns and our auditors have identified that as it relates to the preparation of our financial statements, that we were deficit in our internal controls. From her perspective, if you look underneath part 4, the very, very last line where it says random sampling of transaction records – payrolls, account payables, revenues, expenditures, her feeling is that those are activities that we should start taking on now so that by the time we actually have an audit, we will have already reviewed that and developed internal controls so if you look at the next page, which is the schedule, and where you have part 4 and she doesn't think that part 4 starts until like July, her recommendation is that those things get started now because it seems like we have gaps that we know about right now thus we have to take action quickly to get that area shored up.

Director of Finance Navazio said that makes absolute sense and that on the timeline, under part four, it was really intended to align with the work of the external auditor, and that if you go up to part one and the help of outside consultants, and that the evaluation of gaps and internal controls, etc. should all commence now. He agrees with the Audit Committee and Staff is already working and that item number four is where the outside external auditor fits. Staff could bring them on sooner but they won't be here before June 1 at the earliest. The point is well taken as well as the communication one.

Trustee Callicrate said that he appreciates the Staff work and the work that Trustee Schmitz has put forth as well as Chairman Dent. Great first step and it will show the community that we have been listening. If we need to bring on additional help, we should do so to have the right persons in the right

places. He does have concerns with Eide Bailly as whatever firm we hire does what they are told to do and if we want to broaden that scope, we can do that. This is a great opportunity to flesh it out, he agrees with what we are doing now, and he is comfortable with moving forward.

Audit Committee Chairman Dent asked Staff if they needed any more feedback or anything else from the Audit Committee. He knows that Trustee Schmitz has reached out to external auditing firms and that we want Staff to get started and that we want to work as a team to develop those internal controls so is there anything else that Staff needs from us. Director of Finance Navazio said not at this time and that he looks forward to having continuing discussions to look at each of these components so we have clear responsibilities that is consistent with the overall plan.

D.2. Review, discuss and possibly take action to approve the amendments to Policy 15.1.0.; these changes will take effect upon the completion of the transition plan (Requesting Trustee: Sara Schmitz)

Trustee Schmitz gave an overview of the submitted materials.

Trustee Callicrate said that one of the things that he wanted to reaffirm is that both Trustee Morris and Trustee Wong had issues that they brought up at the last Board of Trustees meeting and have their concerns been met.

Trustee Schmitz said that she believes so and that she went back, after making refinements, to work with Director of Finance and that the two of them have spent quite an amount of time making sure that what we are doing here fits in to what he is wanting to do with the implementation of internal controls so the intent is to have a functioning Audit Committee that is facilitating, supporting, and assisting with, as appropriate, with what his incentives are as well.

Audit Committee Chairman Dent said that it has now been Board and now to the Audit Committee so we can now kick it to the Board and make changes then. The target dates are very ambitious and they are nothing that we are fixed to, it is ambitious, and if it gets pushed out that's okay and that he wouldn't expect anything else from Trustee Schmitz.

Trustee Callicrate made a motion to approve the amendments to Policy 15.1.0.; these changes will take effect upon the completion of

E. APPROVAL OF THE MEETING MINUTES (for possible action)

E.1. Audit Committee Meeting of April 1, 2020

Audit Committee Chairman Dent asked for changes, none were made, so the meeting minutes were approved as submitted.

F. PUBLIC COMMENTS* - Limited to a maximum of three (3) minutes in duration.

Linda Newman said in response to a former Trustee's public comments attacking her allegations of the District's non-compliance with Generally Accepted Accounting Principles and Government Accounting Standard Board Statements by stating that she has offered no proof to substantiate these violations of Nevada law, she would recommend that he look at the two memos included in tonight's Audit Committee packet and make a public records request to examine all of the memos Mr. Dobler and her have written to the Board and the Audit Committee substantiating and documenting our allegations of improper accounting and reporting.

Mike Abel passed on his opportunity to speak.

Cliff Dobler said getting back to this idea of the engagement letter and the idea that someone wants them to prepare the financial statements, it needs to be clarified what the actual financial statements are. If you take a look at the annual comprehensive financial report for Fiscal Year ending June 30, 2019, there is one hundred and seven pages of data, most of it is corrupted of course but the auditor only gives an opinion on twenty five pages of it, they review another nineteen pages of it but they do not give an opinion and there is another sixty three pages of information that is mostly, totally irrelevant and most of it is corrupted. So when you are trying to decide you are going to prepare the financial statements, he thinks it is more important that somebody would take the past financial statements and see how we can go on a diet here because it is pretty innocuous that anybody would even look at this stuff because he can show you at least one hundred errors in the work that is not audited by the auditors so therefore why are we putting in corrupted information that probably nobody reads anyhow. If you ever need to get to sleep in the evening you would pick up the IVGID comprehensive annual report and that will put you to sleep immediately.

Frank Wright said he is a candidate for the Board and that he wants to respond to Mr. Joe Wolfe's comments as it is the same old scenario where a member of the

community, who is an ex-Trustee, attacks those people who have facts and information about events that are taking place here and how a lot of shady things have taken place and there are a lot of funny things going on. If Mr. Wolfe, and this is the same offer that he gave to Trustee Morris at a Board meeting, has information that dispels our information or that of other people, bring it forward and show where we are wrong because to date, he doesn't think anyone has done that. Only people who have barked against us, are those that have no facts or figures, and who are just marginalizing us. It is factual and it is out there as we have presented it, it is being addressed by this Board, Audit Committee and the new Director of Finance and there are a lot of funny things out there. All he asks is that the people of this community support us and quit being so condescending and let's see how to move forward in a positive nature and let's get this done and make this community the best community it can be.

G. ADJOURNMENT (for possible action)

The meeting was adjourned at 4:52 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.