

## MEMORANDUM

**TO:** Board of Trustees

**FROM:** Senior Team (Director of Human Resources Erin Feore, Director of Information Technology Mike Gove, General Manager of Golf Timothy Sands, Director of Administrative Services Susan Herron, General Manager, Diamond Peak Ski Resort Mike Bandelin, Director of Public Works Kate Nelson and Assistant Director of Finance Adam Cripps)

**SUBJECT:** Senior Team's Partial Response to the Forensic Due Diligence Accounting Services Review as presented by RubinBrown on July 10, 2024

**DATE:** July 19, 2024

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### Opening Comments

The forensic due diligence audit by RubinBrown, when initially discussed by the Board of Trustees, caused a significant amount of angst within the Staff of IVGID. The Senior Team did their very best to assure their Staff that this review would only make us better. The Senior Team gave these assurances because the Senior Team was promised that they would have the opportunity to review the draft report prior to it becoming a public document; this did not occur which was a disappointment. While the aforementioned issue is unfortunate, the Senior Team stands ready to work alongside the members of the Board in order to better understand the issues identified by RubinBrown, identify those that have already been taken under consideration for corrective actions, those which have been corrected, and those issues which may need additional resources. While the Senior Team works to gather data to support a diligent analysis of next-steps, this is a tall order and one that will need some time in order to fully present to the Board and members of the public the answers to the questions being asked.

### Executive Summary of Observations (report page 7)

The Senior Team acknowledges that internal controls (development of, writing of, implementing of and training on) remains an outstanding task as identified by Moss Adams. This task has already started, utilizing Baker Tilley Staff, to review current IVGID policies and procedures (including internal controls) to provide IVGID Staff with recommendations based on best practices and industry standards on policy updates and changes. It is our intent to outline what resources are needed in more detail in the following weeks to address this outstanding task.

The Senior Team, specifically the Assistant Director of Finance who started with the District in November 2023, has extensive experience with the Tyler Munis system and is working diligently on being able to have all Senior Team members and Management Staff have the access they need to the reports they need as well as have the training and configurations on their computers in order to run the reports they need to conduct their operations. During the Assistant Director of Finance's short time with the District, to note some of the work that has already been done; Reviewed and revised access and permission levels to staff district-wide in order to separate ability to initiate and approve (Observation #2), trained appropriate staff on processes while separating the duties through permission levels, began process of creating additional user level access roles to leverage the Tyler system to provide access to reports for departments outside of Finance, revised Accounts Payable process utilizing Tyler's full AP suite utilizing Tyler Content Manager for supporting documentation and no longer manually booking disbursements which will maintain check sequence (Observation #2, #3, and #23), trained staff district-wide on Tyler's budget entry district-wide pivoting on this training to help staff better identify repairs and maintenance vs. capital expense vs. capital projects (Observation #8, #9). Even with the steps already taken, this is another outstanding task that will be outlined as to the resources needed to accomplish this effort.

The Senior Team is ready to make the necessary adjustments once we have a complete team (our new Director of Recreation joins our team on July 22, 2024). We are posed and ready to work together with the District General Manager and the Board of Trustees to ensure that we have clear direction and guidance. The Senior Team believes that one key to setting the tone is our mantra "One District – One Team".

Following are the Senior Team's comments on some of the observations. We felt it was very important to begin this dialogue sooner rather than later with our Board of Trustees, who set policy, and with our community, who are financial contributors to our offerings as well as benefactors of our offerings. We do not see this memorandum as the end all be all rather as the beginning and the start to improvement.

On page 7 of the report, it is noted that RubinBrown "reviewed and performed testing on five whistleblower complaints that related to the accounting and/or finance functions and that were not already being tested within a different scope area." The footnote of this statement indicates that "any findings from this area are denoted in our observations within this report"; however, there is no further discussion of the whistleblower complaints within this report.

Observation #1: Tyler Munis Implementation (report page 8)

The Assistant Director of Finance is leading this effort and the Senior Team will be providing an outline of the resources needed and the time it will take to have this implementation complete in the coming weeks.

Observation #2: Initiators and Approvers of Vendors Disbursements (report page 9)

A delegation of authority list is available and the Senior Team is working on updating that document. The Senior Team, in order to more fully understand what the figures are sharing with us, would like to ask for the respective data behind the figures and that it be delivered as soon as possible by RubinBrown to the District General Manager who in turn will share it with the Senior Team so we can dive into the areas of concerns and put in place a plan for correction.

Observation #3: Insufficient Support for Vendor Disbursements (report pages 10-11)

Each of the disbursement amounts in Figures 5 and 6, with the exception of the Board of Regents item, are under \$5,000 which is the purchase order threshold within IVGID therefore a match to the invoice and purchase order is not applicable. The Senior Team is presently trying to determine if support material has been overlooked and so far we do have support material for the disbursement to Troy Akin and DNV Trust. This support material has been provided to the Finance Team so that they can attach it to the disbursement record.

Observation #4: Operating Bank Account and Bank Reconciliations (report page 12)

The bank reconciliations that were delayed were a known task that was deferred due to a) lack of Staff and b) other more pressing projects assigned to the Finance Team mainly by the Board of Trustees. The former Director of Finance, in concert with the former District General Manager, were aware of this deferral and while it was necessary, it wasn't conducted due to other more pressing matters. This circumstance has been rectified as noted by RubinBrown in its narrative and an employee in Finance has been trained to do the bank reconciliations. From July 2023 to May 2024, the bank reconciliations for the operating account have been conducted within the 30 day recommended time frame. As to the recommendation for the quarterly package, Assistant Director of Finance and the Controller are working with the Board of Trustees Treasurer to determine if this is feasible, necessary and how it will be accomplished; more to come on this observation.

**Observation #5: Other Bank Accounts and Bank Reconciliations (report page 13-14)**

The recommendation is to provide a quarterly package; Assistant Director of Finance and the Controller are working with the Board of Trustees Treasurer to determine if this is feasible, necessary and how it will be accomplished; more to come on this observation.

**Observation #6: Operating Bank Account Reconciliations Have Unreconciled Differences (report pages 14 – 15)**

Assistant Director of Finance and the Controller are working to ensure these are accomplished as recommended.

**Observation #7: Cash Entries Posted to General Ledger (report page 15)**

Assistant Director of Finance is accessing this recommendation; more to come in the weeks ahead.

**Observation #8: Treatment of Capital Costs (report pages 15 – 16)**

Assistant Director of Finance is accessing this recommendation; more to come in the weeks ahead.

**Observation #9: Capitalization of Projects Relating to Repairs and Maintenance (report page 16)**

CIP Project #3141LI1201 – Pavement Maintenance of Parking Lots – Champ Course & Chateau. This project was completed in FY 2021/22. This was prior to when the previous Finance Director began to identify Capital Expense Projects separately from the Capital Improvement Projects. This practice was done in FY 2022/23 through FY 2023/24. Under the new Finance team, all expense projects have all been moved within the operation budgets of each division for FY 2024/25.

**Observation #10: Green Fee Pricing Schedules Not Followed (report pages 16 – 17)**

Staff has identified that this issue is related to the use of GolfNOW for booking tee times and Vermont for getting those booked tee times onto the tee sheet. Presently, Staff is working to address this matter through the Active Networks scope of works that was recently approved by the Board of Trustees. More information to come in the weeks ahead. Golf operations staff in coordination with the revenue department created a stronger training program at the beginning of the season to ensure the correct fee structure is being used.

Observation #11: Green Fee Play Passes (report page 17)

As to the suggestion of a free golf play pass being given to a user who is a friend of the IVGID golf employee, Staff would appreciate more detailed information and/or back up data to support this statement prior to making any comment.

Observation #12: Personal Use of Procurement Cards (report page 18)

Staff respectfully requests that this Fraud Risk category be changed to low. As the narrative states, the employees reimbursed IVGID. Mistakes do happen and while we do our best to avoid them, IVGID employees are human. The Senior Team will work with the Finance Team to ensure that individual department refresher trainings are held in the coming weeks.

Observation #13: Insufficient and Inappropriate Support for Procurement Card Transactions (report page 18)

Staff respectfully requests the more detailed information and/or back up to support the samples so we can better understand what transacted prior to making any comment.

Observation #14: Sales Tax Charges (report page 18)

Assistant Director of Finance and the Controller are looking into this recommendation; more information to come in the weeks ahead.

Observation #15: Oversight of Procurement Card Program and Related Expense Reports (report page 19)

When Staff reviewed this recommendation some questions were asked; why shouldn't a P-Card be used at a gas station? Isn't that where you refuel a rental vehicle as an example? Retail box stores? Isn't that where you go if a laptop needs a new charger on the weekend? Liquor store? Senior Team would like to see an example of this purchase because gas, water, soda, food can be bought at a liquor store. Online retailers? Is this an Amazon reference? Therefore, Staff would like to understand the background of how this recommendation came about. In addition, Staff is working on revamping how P-cards are used and who can use them; more information on that piece in the weeks to come.

Observation #16: Physical Inventory Observations and Reconciliations (report pages 19-20)

Various members of the Senior Team dispute this finding as we are all well aware of inventory counts being conducted by the Finance Team. As to the utilization within Tyler Munis, the Assistant Director of Finance and Controller will review and provide their recommendations in the weeks to come. This may require additional resources in order to purchase the inventory module from Tyler Munis.

Observation #17: Inappropriate User Access in Point-of-Sale Systems (report page 20)

Staff is working to address this matter through the Active Networks scope of work that was recently approved by the Board of Trustees. More information to come in the weeks ahead. As of the writing of this report, user account audits are being performed and are regularly scheduled.

Observation #18: Contracts Awarded May Exceed Board of Trustees Funding Approval (report pages 20-21)

It appears that what occurred was that an award was made on 3/31/2021 (\$264,840.48) and that the CIP Popular Report was not updated with that purchase. The remaining funds were awarded at a meeting on 3/9/2022. (\$170,488.50). RubinBrown should also be made aware that while Staff prepares a 5-year CIP plan, the Board only awards year one of the CIP plan at budget time.

Observation #19: Expenses Incurred Prior to Board of Trustees Funding Approval (report page 21)

CIP #2299WS1704 Watermain Replacement – Martis Peak Road

The Board of Trustees approved this project at the May 22, 2019, Board meeting (page 213 of the Board packet) with a budget of \$50,000. Based on the CIP Data Sheet, the \$50,000 was for Internal Planning & Design. At the Board of Trustees meeting on May 27, 2020, the Board approved the budget for construction of \$990,000 (page 84 of the Board packet). This has been a common practice at IVGID to fund design in one year and follow with construction funding.

The waterline design was completed in-house and was approved by the Board on 5/22/2019, so no costs were incurred related to this project that were not approved by the Board. That being said, without having the backup information that Rubin Brown used to determine that \$53,776 (of which \$939 was external) was incurred prior to May 27, 2020; it is difficult to know if there is an acceptable reason for exceeding the approved \$50,000 budget and what the origins of the external expense of \$939. The external expense was most likely a permit fee.

Observation #20: Yearly Budget Allocations by Board of Trustees May Not be Used (report pages 21 – 22)

Senior Team respectfully requests that this observation be removed from the report in its entirety. The philosophy of the budget is that is a plan and the amounts are as accurate as can be determined at the time in which the budget must go before the Board of Trustees for approval. Staff believe the way this observation is worded would encourage a "Spend it all" mentality. As each year cycles into the actual budget, these numbers are refined to reflect more closely to what the Staff can accurately project.

In the case presented, past practice was that a percentage amount was added in the 5-Year CIP Plan year over year.

Any funds that are not spent are automatically returned to the fund balance and each Staff member understands that they are working with the public's monies so getting the best pricing is a goal. Carryforwards are approved by the Board of Trustees each and every year.

Observation #21: Community Programs and Funding Not Approved by Board of Trustees (report page 22)

Senior Team respectfully requests that this observation be removed from the report in its entirety. Not all benches are memorial benches. The District has installed benches at its Skate Park which do not have a plaque and are simply installed for the comfort and relaxation purposes of the community and public members using the amenity. Park benches are included in the budgets of the Parks Department. Further, there is a Policy and Procedure Resolution No. 141, Resolution 1895 that addresses Rotary Benches (aka Memorial Benches). As to the Skate Park and Ball Fields, both of those programs came before and were approved by the Board of Trustees. If RubinBrown desires to review those memorandums, agendas, meeting minutes, etc. please contact the Director of Administrative Services.

Observation #22: Informal Process for Receiving Grants and Funding (report page 22)

The Senior Team is working on a response to this observation and we may need additional detail in order to prepare a complete response.

In the recommendation, RubinBrown recommend that all employees review the outside employment/outside business policy annually. We respectfully submit to RubinBrown that each quarter each and every Senior Team member as well as the Audit Committee members and the Board of Trustees are required to submit entity involvement sheets that are included in a Board packet for public consumption. To date, no employee has been counselled on any participation. This information has been made available to the public for approximately the past 2 years and the Director of Administrative Services is checking to see when this process began.

Observation #23: Sequential Gaps within Disbursement Checks (report page 26)  
Assistant Director of Finance and Controller are using the Tyler Munis system to issue disbursement checks therefore this observation and recommendation is considered closed.

Observation #24: Vendor & Employee Master Files – Duplicative and Overlapping Record Data (report pages 27 – 28)

Senior Team respectfully request the back up data/information used in Figure 15 and will provide a response once that back up data/information is provided.

Observation #25: Projects Relating to Private Funding or Donations (report pages 28 – 29)

Senior Team respectfully requests that this observation be removed from the report in its entirety. The Duffield Foundation partnered with IVGID for the CIP #4884BD2201 Rec Center Expansion project. The expansion of the Rec Center was going to allow IVGID to plan improvements within the existing Rec Center and as such, IVGID was to fund this portion of the project. The Board of Trustees approved \$110,000 to award a design contract with H+K Architects for the Tenant Improvements of the existing Rec Center (Board of Trustees meeting June 29, 2022, Item H.1). The design for the Tenant Improvements portion of the project included renovation of 7,700 square feet of the existing office space, child-care space, pro-shop area, massage room, upgrading the lighting, and addition of a 4-sided elevated walking track to the existing gymnasium. The funding deficit of \$72,613 cited in the RubinBrown report reflects the IVGID funds that were approved by the Board of Trustees for the Tenant Improvements portion of the design.

In RubinBrown's recommendation, they recommend that projects utilizing pledged funds from private donors not incur expenses prior to obtaining the pledged funding. Private donors often have stipulations included in the Memorandum of Understanding that contradict this recommendation.

Observation #26: North Lake Tahoe Fire Protection District Agreement with IVGID (report pages 29 – 30)

To date, the agreement with the North Lake Tahoe Fire Protection District (NLTFPD) has worked very well. The increases in the funding for defensible space work on IVGID lands has been approved with utility rate increases. While the agreement itself does merit refreshing, it hasn't been a top priority for Staff because it has been and continues to work well between the two collaborative partners. The Director of Public Works is leading the effort of rewriting the agreement between the two agencies and it is anticipated that it will come before the Board of Trustees in the coming months. The defensible space billing rate was just approved with the utility rates and remains at a total of \$200,000 per fiscal year.

Observation #27: Petty Cash (report pages 30-31)

Assistant Director of Finance and the Controller are looking into this recommendation; more information to come in the weeks ahead.

Observation #28: Physical Access to Vault (report page 31)

Assistant Director of Finance and the Controller are looking into this recommendation; more information to come in the weeks ahead.

Observation #29: Project Numbers are Reused (report page 31)

When a capital project is created, there may be several layers and contracts associated with that one capital project. Using the project cited within the report, there was a contract to build and construct the pool and that amount was X of the total capital project budget. There was a contract to do landscaping and that amount was Y of the total capital project budget. It has always been the objective of the District to keep all project costs together in order to satisfy the Board of Trustees hunger for total project cost summaries. If each component of a capital project is to have its own unique identifier then that will require research by the Assistant Director of Finance to see if the Tyler Munis applicable module exists and/or can be utilized.

Observation #30: Capital Expenditure Approval Process (Initial and Overruns) (report page 32)

Senior Team would like to know if RubinBrown was provided with the two policies on Capital.

Observation #31: Review Capital Projects for Potential Bid Splitting (report pages 32- 33)

The Tyler Munis system is the District's central depository for all contracts/purchase orders issued. A report can be run from this system and then those enabling documents can be tied back to a Board of Trustees agenda and/or contract approval spreadsheet maintained by the designated Trustee for emergency contracts/purchase orders. Further, the District is in the process of trying to hire a Purchasing/Contracts Manager. Lastly, the Director of Administrative Services does maintain a list of recurring contracts and that has been shared with the Board of Trustees, within their Board packets, numerous times.

Observation #32: Seasonal Discounts at Merchandise Stores Not Approved by Appropriate Level (report page 33)

The observation states that "No documentation records of these approved discounts during the scope period are available". The Senior Team respectfully requests more information on this observation in order to prepare a task.

Observation #33: Employee Clothing Allowance (report page 33)

The Senior Team requests supporting data from Appendix 2 "Expenses Related to Clothing Allowance Descriptions by Employee during Scope Period" prior to responding to this observation.

As noted in the IRS Publication 5137 (Rev 10-2022): "Clothing or uniforms are excluded from wages of an employee if they are:

- Specifically required as a condition of employer; and
- Are not worn or adaptable to general use as ordinary clothing.

<https://www.irs.gov/pub/irs-pdf/p5137.pdf>

This is a negotiated item with the Operating Engineers Local 3 contracts and is reviewed each contract period by the District's General Counsel.

Observation #34: Manual Financial Statement Consolidation Process (report page 34)

Assistant Director of Finance and the Controller are looking into this recommendation; more information to come in the weeks ahead.

Observation #35: Disbursements Reconciliation to the General Ledger (report pages 34 – 35)

Assistant Director of Finance and the Controller are looking into this recommendation; more information to come in the weeks ahead.

Observation #36: Consolidated List of Executed Contracts is not Readily Available (report page 35)

The Director of Administrative Services is looking into this recommendation; more information to come in the weeks ahead. An earlier mention in this memorandum was made to a listing of all purchase orders/contracts that the Tyler Munis system is able to produce which could be the source document to be used.

Observation #37: Prevailing Wages Evidence for Contracts not Retained (report page 35)

Senior Team respectfully requests that this observation be removed from the report in its entirety. The construction contracts that require prevailing wage and/or Davis Bacon wages be used are reviewed by District Counsel or specialized outside Counsel. The burden of proof for providing evidence of wage postings and/or evidence of communication to workers lies with the Contractor per the contract. IVGID also requires the Contractor to provide weekly payroll reports be submitted by utilizing the LCP Tracker software. IVGID is responsible for reviewing

and confirming that the Contractor is complying with reporting the wages accurately and on time. LCP Tracker interfaces with the Nevada Department of Labor and IVGID has not received any notice from the Nevada Department of Labor that the District is not in compliance with their regulations.

**Observation #38: Frequency of Cash Collections (report page 35)**

The Senior Team recalls when the District did have daily cash pick ups. As cash purchases began to decline and as the District moved to a cashless environment, the determination was made to utilize the safes in a more effective manner and decrease the daily cash pick ups by a third party to reduce costs. The Senior Team finds that the present schedule of weekly cash pick ups within our environment is sufficient.

**Observation #39: Security of Cash During Cash Collections (report page 36)**

Assistant Director of Finance and the Controller are looking into this recommendation; more information to come in the weeks ahead.

**Observation #40: Lack of Internal Controls and Oversight at IVGID Golf Courses (report page 36)**

The General Manager of Golf is looking into this recommendation; more information to come in the weeks ahead.

**Observation #41: Customer Credit Card Processing Errors (report pages 36 – 37)**

The Director of Information Technology is aware of this concern and has advised that it is being fixed and that he will update this recommendation in the coming weeks.

Closing Comments

It is the collective opinion of the Senior Team that this report does identify areas for improvement which we all consider a top priority. As we hope this response has proven, many of these observations have already been addressed. The Senior Team also note that there are some inaccuracies within the report and have made our best attempt, to address them in this response. The Senior Team will provide updates as we have them and look forward to the opportunity to share our response publicly.