

DURHAM COUNTY, NORTH CAROLINA

COMPLIANCE REPORT

As of and for the Year Ended June 30, 2024

And Reports of Independent Auditor

DURHAM COUNTY, NORTH CAROLINA
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**Report of Independent Auditor on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

To the Board of County Commissioners
Durham County, North Carolina
Durham, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Durham County, North Carolina (the "County"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated April 16, 2025. Our report includes a reference to other auditors who audited the financial statements of the Durham County ABC Board (the "ABC Board") as described in our report on the County's financial statements. The financial statements of the ABC Board were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or compliance and other matters associated with the ABC Board or that are reported on separately by those auditors who audited the financial statements of the ABC Board.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2024-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2024-001 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Durham County's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the County's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The County's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response. However, we do not agree with the County's description of the circumstances that resulted in the findings. We believe the actual accounting requirements are established, but the facts and circumstances of the underlying transactions were not clearly understood, resulting in financial misstatements.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cherry Bekaert LLP

Raleigh, North Carolina
April 16, 2025

**Report of Independent Auditor on Compliance for Each Major Federal Program
and on Internal Control over Compliance Required by the Uniform Guidance
and the State Single Audit Implementation Act**

To the Board of County Commissioners
Durham County, North Carolina
Durham, North Carolina

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Durham County, North Carolina's (the "County") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2024. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"); and the State Single Audit Implementation Act. Our responsibilities under those standards, the Uniform Guidance, and the State Single Audit Implementation Act are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the County's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the County's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the County's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act, we:

1. Exercise professional judgment and maintain professional skepticism throughout the audit.
2. Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
3. Obtain an understanding of the County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance and the State Single Audit Implementation Act

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the County's basic financial statements. We issued our report thereon dated April 16, 2025, which contained unmodified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the Uniform Guidance and the State Single Audit Implementation Act and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

Cherry Bekaert LLP

Raleigh, North Carolina
April 16, 2025

**Report of Independent Auditor on Compliance for Each Major State Program
and on Internal Control over Compliance as Required by the Uniform Guidance
and the State Single Audit Implementation Act**

To the Board of County Commissioners
Durham County, North Carolina
Durham, North Carolina

Report on Compliance for Each Major State Program

Opinion on Each Major State Program

We have audited Durham County, North Carolina's (the "County"), compliance with the types of compliance requirements identified as subject to audit in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the County's major state programs for the year ended June 30, 2024. The County's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2024.

Basis for Opinion on Each Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and the State Single Audit Implementation Act. Our responsibilities under those standards, the Uniform Guidance, and the State Single Audit Implementation Act are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major state program. Our audit does not provide a legal determination of the County's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts, awards, or grant agreements applicable to the County's state programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the County's compliance with the requirements of each major state program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, and the State Single Audit Implementation Act, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report of Internal Control over Compliance

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Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance and the State Single Audit Implementation Act

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The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

Cherry Bekaert LLP

Raleigh, North Carolina
April 16, 2025

DURHAM COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2024

SECTION I—Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? ☒ yes ☐ no
- Significant deficiencies identified that are not considered to be material weaknesses? ☒ yes ☐ none reported

Noncompliance material to Financial Statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major federal programs:

- Material weaknesses identified? ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weaknesses? ☐ yes ☒ no

Noncompliance material to federal awards?

☐ yes ☒ no

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☐ yes ☒ no

Identification of major federal programs:

Federal Assistance

<u>Listing Number</u>	<u>Program/Cluster Name</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds
93.667	Social Services Block Grant
93.778	Medicaid Cluster

Dollar threshold used to distinguish between Type A and Type B Programs

\$1,850,385

Auditee qualified as low-risk auditee

☒ yes ☐ no

DURHAM COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2024

SECTION I— Summary of Auditor's Results (continued)

State Awards

Internal control over major state programs:

- | | | |
|--|----------|-----------------|
| ▪ Material weaknesses identified? | _____yes | <u> X </u> no |
| ▪ Significant deficiencies identified that are not considered to be material weaknesses? | _____yes | <u> X </u> no |
| Noncompliance material to state awards? | _____yes | <u> X </u> no |

Type of auditor's report issued on compliance for major state programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?

_____yes _____X_____no

Identification of major state programs:

Program Name

DSS Crosscutting

Public School Building Capital Fund

Note: The following federal programs, previously identified, are also considered to be major State programs: 93.778 Medicaid and 93.667 Social Services Block Grant.

DURHAM COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2024

SECTION II—Financial Statement Findings

Finding 2024-001

Significant Deficiency – Opioid Settlement Fund

Criteria: In entering into the Memorandum of Agreement (the “MOA”) with the State of North Carolina (the “State”) Durham County (the “County”), which serves as a State-Subdivision Agreement under the National Settlement Agreement (the national opioid settlement), the County is considered a direct party to the litigation. This results in accounting for these monies as an exchange-like transaction, whereby all revenue is recognized at the time the settlement is reached.

Cause: In the prior fiscal year, the County received monies from the State as a result of the national opioid settlement and other monies that were required by the State to be used for other opioid related expenditures. At that time, the County did not consider itself to be a direct party to the settlement and as such accounted for all the funds under the non-exchange method. Subsequently, the State has clarified that by entering into the MOA with the State, the County is considered to be a direct party to the litigation and, therefore, funds should be accounted for under the exchange type method.

Condition: In the prior fiscal year, under the non-exchange type transaction method, revenue was only recognized to the extent received and not accrued.

Effect: Restatement was required to recognize the net award at the government-wide level. Reclassification was required at the fund level to move non-settlement related monies out of the Opioid Fund to the General Fund.

Recommendation: We recommend the County establish procedures to ensure adequate review of significant and unusual transactions to ensure financial statements are free from misstatements.

Management’s Response:

Durham County’s management disagrees with the finding.

DURHAM COUNTY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2024

Finding 2024-002

Material Weakness – Fund balance / Net position

Criteria: An effective system of internal control contemplates that management prepare financial statements that are accurate and in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Part of achieving that objective requires maintaining accurate and complete general and subsidiary ledgers, along with records supporting the existence, completeness, and valuation of all assets, deferred inflows of resources, liabilities, deferred outflows of resources, net position/ fund balance, revenues, and expenses/expenditures.

Cause: The County’s Department of Finance lacks sufficient resources to complete an accurate financial period close and produce compliant financial statements while adhering to externally imposed financial reporting deadlines.

Conditions: Annually, the County’s Department of Finance oversees the preparation, processing, and recording of thousands of financial transactions that ultimately will be reflected in the Annual Comprehensive Financial Report produced within the County’s Department of Finance. During the external financial statement audit, an instance was identified requiring an adjustment in the financial statements as follows:

1. Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds related to the Capital Projects Fund did not reconcile with the expenditures reported in the Schedule of Expenditures Compared with Project Authorizations. Transaction was recorded in the Capital Project Fund to expense a loan receivable and create a deferred inflow for a loan which had not been formally approved by the Board of Commissioners for forgiveness. Additionally, creating a deferred inflow is the incorrect treatment to forgive a loan as the principal receivable is not a revenue stream. Once formally approved for forgiveness, a debit to expense and credit to A/R is the appropriate accounting treatment.

Effect: Fund balance in the Capital Projects Fund was understated by \$9,750,000 and net position of the Governmental Activities was understated by \$9,750,000.

Recommendation: We recommend Durham County examine internal controls over the financial closing process to ensure they are operating effectively, and all necessary adjustments are identified, recorded accurately, and reviewed, so the financial statements are free from misstatements.

Management’s Response:

Durham County’s management disagrees with the finding.

SECTION III—Federal Awards Findings and Questioned Costs

None noted.

SECTION IV—State Awards Findings and Questioned Costs

None noted.

DURHAM COUNTY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2024

Finding 2023-001:

Corrected.

DURHAM COUNTY, NORTH CAROLINA CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2024

2024-001 – Significant Deficiency Opioid Settlement Fund



FINANCE DEPARTMENT

SECTION III – SCHEDULE OF CORRECTIVE ACTION PLANS

II – Financial Statement Findings

Finding 2024-001 Significant Deficiency

Name of Contact Person(s): Crystally Wright and Connecia Brown

Management Response: Management disagree with the finding.

Durham County has diligently adhered to and continues to adhere to the guidance provided by the Local Government Commission (LGC) for the accounting of opioid settlement funds. According to the guidance outlined in the 2022 Carolina County Illustrative Financial Statements by LGC, there were no opioid receivables presented that would necessitate the County to classify the transactions as exchange revenues. Furthermore, upon thorough review of the financial statements by the auditors, no findings or adjustments were identified concerning opioid settlement funds, ensuring the correct application of GAAP/GASB treatment for those revenues. It is important to note that there was no specific guidance pertaining to Opioid Settlement funds supporting their classification as an exchange transaction when the initial disbursement of funds was received by Durham County.

The original guidance for the Opioid Settlement Funds stipulated that the fund's revenue should not be recognized until the funds were expended, due to restrictions on its use. Furthermore, the guidance specified that restricted cash, or cash on hand, should be reported as an asset offset by an amount for unearned revenues, which is considered a liability. As per the guidance, these amounts were only presented in the balance sheet for governmental funds and Government Activities on the Statement of Net Position. The original guidance regarded all revenue from the opioid settlements as a nonexchange transaction, based on meeting eligibility requirements. One of the eligibility requirements for opioid settlements was the incurrence of qualifying expenditure amounts. Consequently, the opioid settlement funds were classified as a nonexchange transaction, and the County adhered to GASB 33 for accounting for these funds.

Amid the ongoing opioid settlement litigation and the finalization of associated settlements, there was an update regarding the proper financial reporting and accounting treatment for the funds received from the opioid settlements. The Government Finance Officer's Association (GFOA) drew a parallel between the opioid settlement funds and the tobacco settlement that took place in the early 2000s. In 2004, the Governmental Accounting Standards Board (GASB) provided guidance on the recognition of revenue from the tobacco settlement, categorizing it as an exchange transaction where payments were made to states in exchange for releasing the tobacco companies from present and future

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DURHAM COUNTY, NORTH CAROLINA

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2024

litigation. Consequently, it was determined that using only the nonexchange transaction approach for accounting and financial reporting related to opioid settlement funds was no longer appropriate. In early September 2023, the GFOA issued clarifying guidance on how to account for opioid settlement payments. Additionally, the LGC (Local Government Commission) issued an update in late September 2023, offering further clarification for counties in North Carolina based on the GFOA's update. Local governments are now required to assess whether the guidance for exchange or nonexchange transactions is applicable to the opioid settlement funds. It was concluded that an exchange transaction approach would be more suitable for opioid settlement funds for local governments, given their direct involvement in the litigation.

Durham County utilized the guidance provided by GFOA and LGC to account for opioid settlement funds in the FY2024 Carolina County Illustrative Financial Statements, as updated by the LGC on 11/13/2024. The application of exchange transaction guidance was used to record an opioid receivable and deferred inflows on the Governmental Funds Balance Sheet, in accordance with GASB and GAAP standards. In response to the change in treatment of the opioid settlement funds, Durham County made an error correction for prior year activity and presented the net adjustment of revenues from prior year to FY2024 in the Statement of Activities, as depicted in the FY2024 Carolina County Illustrative Financial Statements. The error correction is disclosed in Note O. Accounting Changes and Error Corrections.

To comply with the requirements of the MOA and mitigate the risk of commingling funds, Durham County reclassified \$1,000,000 of Opioid Settlement Funds to the General Fund for the purpose of clearly identifying and segregating these funds associated with the MOA. The reclassification aimed to ensure that only funds related to the MOA were presented in the financial statements, thereby reducing the risk of commingling funds and ensuring accurate reporting for Opioid Settlement funds.

As a result of the auditors' findings, Durham County faced penalties for adhering to the updated guidance from GFOA and LGC, which mandated the restatement of financial statements to align with standards. Durham County has diligently reviewed significant and unusual transactions and promptly implemented updates to standards to ensure compliance.

Corrective Action: The County ensured that the appropriate notations were made in the FY2024 audit. Cherry Bekaert concurred with the presentation of the change in the financials and indicated that no finding would be issued, as this change affects all counties. The inconsistent application of audit standards raises concerns and has resulted in a lack of trust in the review process.

Anticipated date of completion: Durham County made the necessary changes in November to comply with the LGC illustrative financial statements.

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DURHAM COUNTY, NORTH CAROLINA CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2024

2024-002 – Material Weakness – Fund balance / Net position



FINANCE DEPARTMENT

SECTION III – SCHEDULE OF CORRECTIVE ACTION PLANS

II – Financial Statement Findings

Finding 2024-002 Material Weakness – Fund balance / Net position

Contact Person(s): Crystally Wright and Connecia Brown

Management's Response: Management disagrees with the finding.

Between 2020 and 2023, the County made a commitment to secure a loan of \$9,765,000 for the 300 E. Main Street Affordable Housing Development project. According to the agreement, the County pledged to reimburse Laurel Street Residential, a third party, for expenses up to \$9,765,000 incurred in developing affordable housing units within the County-owned parking facility. The letter of intent remains valid until the completion of the 300 Block Affordable Housing project. Funding for this initiative is sourced from the County's PAYGO fund, which utilizes the County's fund balance for capital outlay expenditures. These funds were budgeted in FY2022 as an expenditure unrelated to a specific project, and as expenses are accrued, the fund balance decreases accordingly. Due to construction delays, the expenses associated with this loan were not disbursed until FY2024. Consequently, when the funds were disbursed, the County reduced its cash reserves and increased the receivable by the same amount.

In 2017, the County engaged in a similar transaction known as the Whitted School Receivable (WSR Receivable), where the County provided a loan for the construction of a pre-K facility. During this transaction, the County acknowledged the expenditures and established a deferred inflow for the loan, as the repayment terms were not yet determined. Upon reviewing the agreements and obtaining board approvals for the project, the County determined that applying the same treatment would be suitable for the \$9,765,000 transaction. As a result, the County made an additional entry to account for the expenditure (decrease to fund balance) and the deferred inflow, given that the revenue is intended to be recognized in a future period that has not been specified yet. Furthermore, the County conducted discussions regarding this transaction with the previous partner and manager, and no errors were identified as a result of this review.

According to the partner's original financial statement review, the \$9,765,000 reported as a deferred inflow in the Balance Sheet – Governmental Funds and the expenditure reported in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds was not identified as an error. Upon review by the partner, it was observed that the Capital Projects Fund Authorizations did not

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DURHAM COUNTY, NORTH CAROLINA
CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2024

match the capital outlay expenditures per the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds. In response to this observation, the County explained that the \$9,765,000 was included in the capital projects fund general government expenditures to decrease the fund balance of the Capital Projects Fund for the loan transaction. This loan was approved to be funded through the PAYGO fund, which utilizes Fund Balance for capital outlay and construction expenses. Following advice from the auditors, it was determined that there should not be a deferred inflow of resources for the loan, despite this treatment being acceptable for the WSR loan in FY2017.

As a result of communications, the County reversed the entry to record expenditures and deferred inflow, leading to an adjustment in the Fund Balance. However, despite this reversed entry, the County has not reduced the fund balance to account for the \$9,765,000 expenditures incurred due to the loan. Consequently, the County believes that the Fund Balance is incorrect and does not align with the treatment reviewed by the auditors in FY2017.

Corrective Action: Durham County has conducted an examination of the internal controls governing the financial closing process. The adjustments have been implemented in alignment with the recommendations from the auditor. The changes that have been made are not in line with the accounting treatment that was applied in 2017 for a similar project reviewed by the auditor. Durham County will collaborate with the auditors to gain understanding of the different accounting treatment compared to the previously audited financial statements.

Anticipated date of completion: Durham County has implemented the auditor's recommendation.

III – Federal Award Findings and Questioned Costs

None

IV – State Award Findings and Questioned Costs

None

DURHAM COUNTY, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2024

FEDERAL AGENCY PASS-THROUGH ENTITY PASS-THROUGH DIVISION PROGRAM NAME	FEDERAL ASSISTANCE LISTING NUMBER	PASS THROUGH SUBRECIPIENT'S NUMBER	FEDERAL (DIRECT & PASS-THROUGH) EXPENDITURES	STATE EXPENDITURES
FEDERAL AWARDS				
<u>U.S. Dept. of Agriculture</u>				
Passed through the N.C. Dept. of Health and Human Services:				
Division of Social Services:				
Administration:				
Supplemental Nutrition Assistance Program (SNAP) Cluster				
Food Stamp Administration	10.561	235NC406S2514	\$ 5,684,746	\$ -
Division of Public Health:				
Administration:				
Food Nutrition Administration	10.551	23NC406S2514	1,226,465	-
Total SNAP Cluster			6,911,211	-
Division of Public Health:				
Administration:				
Women, Infants & Children (WIC)	10.557		145,563	-
Total U.S. Dept. of Agriculture			7,056,774	-
<u>U.S. Dept. of Housing and Urban Development</u>				
Passed through the City of Durham:				
Housing Opportunities for Persons with Aids (HOWPA) Program	14.241	(NCH22 & 23) -F004	369,899	-
Total U.S. Dept. of Housing and Urban Development			369,899	-
<u>U.S. Dept. of Justice</u>				
Passed through the N.C. Dept. of Public Safety:				
National Asset Seizure Forfeiture Program	16.922		342,856	101,788
Edward Byrne Memorial Justice Assistance Grant (JAG)	16.738	FAW-169344	555,438	-
Hyati Reborn Justice Assistance	16.753	BRND	539,834	-
Total U.S. Dept of Justice			1,438,128	101,788
<u>U.S. Dept of Transportation</u>				
Passed-through the N.C. Dept of Transportation				
Division of Public Transportation:				
Elderly and Disabled Transportation Assistance (E&DTAP/ROAP)	20.600	PT-23-06-16 DOT-16CL	-	241,081
Governor's Highway Safety Grant	20.600		104,683	-
Hazardous Materials Emergency Preparedness (HMEP)	20.703		29,825	-
Total U.S. Dept of Transportation			134,508	241,081
<u>U.S. Department of the Treasury</u>				
Direct Assistance				
COVID-19 - Coronavirus State & Local Fiscal Recovery Funds	21.027		16,790,750	-
Federal Forfeiture (Treasury)	21.016		47,324	-
Passed through City of Durham				
COVID-19 ARPA Reentry Grant	21.027		106,825	-
Passed through N.C. Dept. of Cultural and Natural Resources				
COVID-19 State Aid to Libraries	21.027		-	309,322
Passed through N.C. Dept. of Public Health				
COVID-19 Addressing Lead in Water	21.027		93	-
Passed through the N.C Dept of Environmental Quality				
COVID-19 Stream Restoration (Whispering Pines)	21.027		88,230	-
Passed through N.C. Department of Health & Human Services:				
COVID-19 Emergency Rental Assistance Program (ERAP)	21.023	ARP Mar21 DCO	2,594,174	-
Total U.S Department of the Treasury			19,627,396	309,322
<u>U.S. Department of the Interior (Libraries)</u>				
Passed through N.C. Dept of Cultural and Natural Resources				
LSTA Grant	45.310		26,686	-
Total U.S. Department of the Interior			26,686	-

DURHAM COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2024

FEDERAL AGENCY PASS-THROUGH ENTITY PASS-THROUGH DIVISION PROGRAM NAME	FEDERAL ASSISTANCE NUMBER	PASS THROUGH SUBRECIPIENT'S NUMBER	FEDERAL (DIRECT & PASS-THROUGH) EXPENDITURES	STATE EXPENDITURES
U.S. Dept. of Health & Human Services				
Passed through the N.C. Dept. of Health and Human Services:				
Refugee and Entrant Assistance Cluster (Note 3):				
Division of Public Health:				
Refugee Health Assessments	93.576	2301NCRMA	180,394	-
Division of Social Services :				
Refugee Assistance	93.566	2301NCRMA	19,388	-
Total Refugee and Entrant Assistance Cluster			199,782	-
Division of Public Health:				
Public Health Emergency Preparedness	93.069	12642680EX	46,113	-
CDC Tuberculosis Project	93.116	2360272CNF 2360455400	109,594	-
Prescription Drug Overdose (Community Linkage Care)	93.136	1175B837DH	29,000	-
Minority Health Grant	93.137		738,171	10,778
COVID-19 CDC Immunization	93.268	1331627DVP	150,374	-
Immunization and Vaccines for Children	93.268	CDC-RFA-IP19-901	56,606	-
Tobacco Control Program	93.305	75-0943-0-1-551	129,066	-
Special Supplemental Nutritional Food Program for Women, Infants, and Children	93.307		800	-
COVID-19 Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	56-2721-1-1-101	657,842	-
COVID-19 ARPA School Health Team Workforce	93.354		330,087	-
Comprehensive Breast and Cervical Cancer Early Detection Program	93.919	1320559900	20,150	-
Preventive Health Service STD Control Grant	93.977	13114536BN 13114601RR	-	243,158
			2,267,803	253,936
Health Resources and Service Administration				
Family Planning Services	93.217	23A1592BFP 23A15735AP	255,825	462,073
Comprehensive Suicide Prevention	93.764		61,588	-
Preventive Health Services Block Grant (Healthy Communities)	93.991	23A15107AP	-	34,734
Maternal Health	93.994	23A15740AP	213,388	-
MCH Block Grant -Women's Prevention	93.994	23715021AP	410,854	-
-Child Care Coordination	93.994	23715318AP	75,342	-
-Child Health	93.994	2371574500 23715351AP	18,651	-
			1,035,648	496,807
Division of Aging:				
Aging Cluster:				
Special Programs for the Aging - Title III-C (MOW)	93.045	22-23 AANCT3HD	1,121,676	-
Total Aging Cluster			1,121,676	-
Social Services Block Grant - In Home Service Fund	93.667	2301NCSOSR	110,164	-
Social Services Block Grant - Adult Protective Service	93.667	2301NCSOSR	26,197	39,236
Social Services Block Grant - Adult Day Care	93.667	2301NCSOSR	90,812	76,567
Division of Social Services :				
SSBG - Other Service and Training	93.667	2301NCSOSR	1,557,322	-
Total Social Services Block Grant			1,784,495	115,803
HIV Cluster (Note 3):				
HIV Preventive Activities-Health Department Based	93.940	23A1570000 23114541BN	333,340	94,664
Total HIV Cluster		2311981FHV	333,340	94,664
Division of Social Services :				
Administration of Children and Families				
Foster Care and Adoption Cluster (Note 3):				
IV-E CPS	93.658	2301NCC1LP	198,359	198,359
IV-E ADMIN Foster Care (Medicaid)	93.658	1701NCFOST	4,048	-
IV-E Foster Care TRN	93.658	2301NCC1LP	27,650	-
IV-E Foster Care/OFF TRN	93.658	2301NCC1LP	1,629,710	-
IV-B Adoption Assistance-NAS		State	-	302,428
IV-E Foster Care	93.659		745,167	-
IV-E Adoption/OFF TRN	93.659	2301NCC1LP	366,081	-
IV-E Adoption Assistance	93.659		1,795,519	434,008
IV-E Optional Adopt	93.659	2301NCC1LP	8,779	-
Special Children Adoption/Adopt. Prom.	93.659		-	218,033
Total Foster Care and Adoption Cluster			4,775,313	1,152,828

DURHAM COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2024

FEDERAL AGENCY PASS-THROUGH ENTITY PASS-THROUGH DIVISION PROGRAM NAME	FEDERAL ASSISTANCE NUMBER	PASS THROUGH SUBRECIPIENT'S NUMBER	FEDERAL (DIRECT & PASS-THROUGH) EXPENDITURES	STATE EXPENDITURES
<u>Special Children Adoption Fund (Adoption Promotion Program Fund) (Note 3):</u>				
Family Preservation	93.556	G2301NCFPSS	83,835	-
Perm Plan SVC & ADMIN	93.645	G2301NCCWSS	75,613	-
Total Special Children Adoption Fund (Adoption Promotion Program Fund)			159,448	-
Work First Administration	93.558	2301NCTANF	550,931	-
Work First Service	93.558	2301NCTANF	1,836,420	-
Temporary Assistance for Needy Families	93.558	2301NCTANF	32,832	-
Title IV D - Child Support Enforcement	93.563	2301NCCES	4,248,775	-
Low Income Energy Adminstration - Regular	93.568	2301NCLIEA	256,329	-
LIHWAP	93.568	EFS-FNSEP-96-2023	75,530	-
Crisis Intervention	93.568	G23B1NCLIEA	9,638	-
Independent Living - (LINK)	93.674	2301NC1420	63,135	15,784
			7,073,590	15,784
Division of Child Development:				
<u>Subsidized Child Care Cluster</u>				
Child Care and Development Fund - Mandatory	93.596		1,158,952	-
Total Subsidized Child Care Cluster			1,158,952	-
Division of Medical Assistance:				
Health Care Financing Administration				
Health Choice	93.767	CHIP23	816,145	(395)
			816,145	(395)
<u>Medicaid Cluster:</u>				
Adult Care Home Case Management	93.778	XIX-MAP23	266,964	37,801
Medical Assistance Administration	93.778	XIX-MAP23	10,379,885	212,827
Medical Transportation Administration	93.778	XIX-MAP23	316,962	-
State County Special Assistance	93.778	XIX-MAP23	246,331	1,368,884
Medical - MAC	93.778	XIX-MAP23	642,588	-
Total Medicaid Cluster			11,852,730	1,619,512
Passed-through the N.C. Department of Health and Human Services				
FR-CARA	93.243		273,933	-
Total U.S. Dept. of Health & Human Services			32,852,855	3,748,939
U.S. Dept. of Homeland Security				
Passed-through the N.C. Department of Public Safety				
Emergency Management Performance Grant (EMPG)	97.042	EMA-2022-EP-00005-2220031	149,409	-
COVID-19 Emergency Management Performance Grant (EMPG) - ARPA	97.042		23,853	-
Total U.S. Dept of Homeland Security			173,262	-
Total Federal Awards			61,679,508	4,401,130

DURHAM COUNTY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2024

FEDERAL AGENCY PASS-THROUGH ENTITY PASS-THROUGH DIVISION PROGRAM NAME	FEDERAL ASSISTANCE NUMBER	PASS THROUGH SUBRECIPIENT'S NUMBER	FEDERAL (DIRECT & PASS-THROUGH) EXPENDITURES	STATE EXPENDITURES
STATE AWARDS				
<u>N.C. Dept. of Health and Human Services</u>				
Division of Social Services:				
State Foster Home			-	206,105
CPS / CWS - State			-	180,584
Special Links			-	69,693
Foster Care- State			-	651,484
Program Integrity			-	161,966
Emergency Placement (Foster Care)			-	25,904
Total Division of Social Services			-	1,295,736
Division of Public Health:				
State Aid to Counties		116141100023	-	175,473
CSHS Special Nutrition Project			-	19,227
General Communicable Diseases Control		117545100023	-	7,297
School Nurse Funding Initiative		133253580023	-	98,177
Project Build			-	8,754
TANF-LARC			-	15,724
Total Division of Public Health			-	324,652
Total N.C. Dept. of Health and Human Services			-	1,620,388
<u>N.C. Department of Agriculture</u>				
Farmland Protection			-	15,000
			-	15,000
<u>N.C. Cooperative Extension</u>				
KVD Community Outreach				6,665
Food Security Grant (State)			-	101,670
Welcome Baby			-	28,094
Total Cooperative Extension			-	136,429
<u>N.C. Dept of Public Safety</u>				
JCPC - Community Based Alternatives			-	560,024
Total N.C. Dept. of Public Safety			-	560,024
<u>N.C. Dept of Public Instruction</u>				
State Food Reimbursement			-	33,344
<u>Office of State Budget and Management</u>				
Public School Building Capital Fund			-	1,950,119
<u>Other Financial Assistance</u>				
Opioid Settlement Fund (Note 6)			-	68,493
Total State Awards			-	8,784,927
TOTAL FEDERAL AND STATE AWARDS			\$ 61,679,508	\$ 8,784,927

DURHAM COUNTY, NORTH CAROLINA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

YEAR ENDED JUNE 30, 2024

Note 1—Basis of presentation

The schedule of expenditures and federal and state awards (the “schedule”) presents the activities of all federal and state financial award programs of Durham County, North Carolina (the “County”) for the year ended June 30, 2024. All federal and state awards received directly from federal and state agencies as well as federal and state financial awards passed through other government agencies are included in the Schedule. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements* (“Uniform Guidance”) and the State Single Audit Implementation Act. Because the schedule presents only a selected portion of the operations of the County, it is not intended to present the financial position, changes in net assets or cash flows of the County.

Note 2—Summary of significant accounting policies

Basis of Accounting – Expenditures reported on the Schedule are presented using the modified accrual basis of accounting method. This method is consistent with the method used to prepare the County’s basic financial statements.

Cost Principles – The cost principles applicable to the expenditures on the Schedule include Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. These principles identify certain types of expenditures that are not allowable or are limited as to reimbursement.

Indirect Cost Rate – The County has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3—Cluster of programs

The following federal programs are clustered by the N.C. Department of Health and Human Services and are treated separately for state audit requirement purposes:

Special Children Adoption Fund – State Cluster 93.556; 93.558; 93.603; and 93.645

Refugee and Entrant Assistance – State Cluster 93.566 and 93.576

Foster Care, Adoption, and Guardianship Assistance Program – State Cluster 93.658 and 93.659

Note 4—Non-cash awards

The County did not receive noncash federal or noncash state awards during the year ended June 30, 2024.

Note 5—Contingencies

These programs are subject to financial and compliance audits by grantor agencies. The amount, if any, of expenditures that may be disallowed by the grantor agencies cannot be determined at this time, although the County expects such amounts, if any, to be immaterial.

Note 6—Opioid Settlement Funds

The North Carolina Department of Justice does not consider Opioid Settlement Funds either Federal or State financial assistance since they are from a settlement with major drug companies. Since these funds are subject to the State Single Audit Implementation Act, they are reported as Other Financial Assistance on the SEFSA and considered State awards for State single audit requirements.