



December 11, 2018
Durham County Audit Oversight Committee Minutes

I. Call to order

The meeting was called to order at 3:30pm in the Durham County Manager's Conference Room located at 200 East Main Street, Durham, NC 27701.

II. Members

Present: Mr. Arnold Gordon, Chair; Manuel Rojas, Vice Chair, Commissioner Wendy Jacobs; Dr. Nicole McCoy, Secretary; Commissioner Heidi Carter and Mr. Wendell Davis, County Manager (Ex-Officio).

Absent: Commissioner James Hill (unexcused absence);

Presenter: Darlana M. Moore, Internal Audit Director; Scott Duda, Managing Partner for Cherry Bekaert

Others Present: Susan Tezai, Chief Financial Officer; Claudia Hager, General Manager; Elizabeth Davis, Internal Auditor

III. Business

A. Prior Meeting Minutes – Mr. Arnold Gordon

Mr. Rojas moved and Commissioner Carter seconded the motion to approve the minutes from December 11, 2018. The minutes were approved unanimously.

B. Discuss of 2018 External Audit – Scott Duda, Partner

Mr. Gordon introduced Mr. Duda from Cherry Bekaert. Mr. Duda explained the audit process and the results of the Comprehensive Annual Financial Report (CAFR) and Single Audit (both federal and state required testing). Mr. Duda informed the Committee that the audit of financial statements was performed in accordance with Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAS). The Uniform Guidance, Audits of States, Local Governments, and Non-Profits was used for the Single Audit.

Mr. Duda explained that the audit is designed to provide reasonable (not absolute) assurance as to whether the County's financial statements are free from material misstatements. Mr. Duda concluded that, Durham County is overall, very healthy from both an economic and internal controls standpoint. Mr. Duda summarized the financial statement audit results and they are as follows:

1. Both the Financial Statement and Yellow book opinions were unmodified¹.
2. There were no findings related to internal controls.
3. There were no instances of statutory noncompliance.

The audit focused on new regulations. There was a new accounting principle, Governmental Accounting Standards Board (GASB) regulation (GASB 75) relating to OPEB (pension liability). Every governmental entity implemented this regulation in the current year (assuming it was material for the governmental entity). This new regulation created a "*Emphasis of Matter*" paragraph in the financial statement opinion².

For the Single Audit testing, Cherry Bekaert is required to test a certain percentage of grant funded programs each year. This testing cycles from year-to-year depending upon the amount of grant dollars the County spends. Cherry Bekaert conduct a risk analysis to ensure they have enough coverage for both federal and state dollars. Cherry Bekaert also look at the amount of testing that has occurred in previous audits to determine the sample size. Medicaid is tested every year.

There was no management letter issued because there were no findings beyond statutory noncompliance findings. There were findings from both federal and state testing. The first finding³ for 2018 was a repeat finding that was also seen in 2017. Both findings (2018-001 and 2018-002) were also statutory compliance findings. They are both noncompliance and nonmaterial findings related to the federal programs. All four of the findings related to both federal and state internal controls. These findings were reported as significant deficiencies but not material weaknesses.

Commissioner Jacobs asked whether a repeat finding is significant? Mr. Duda replied, "It is something to be aware of. Based on the timing of the way we issue our reports, it's possible that we could test something in 2017, issue that report and then have case files for fiscal 2018 that have already been closed that we test in our 2018 sample that didn't have the opportunity to be rectified nor any changes implemented. If I were in your shoes, I would want to make sure the findings were being addressed and the internal controls implemented. If any additional training is needed, then that should occur, as well. For this to be a second year finding, it could just very well be the department not being able to conduct the necessary training or remediate the finding as of yet."

¹ Clean opinion. The highest level of assurance Cherry Bekaert can provide.

² "*Report of Independent Auditor*," Comprehensive Annual Financial Report, 2018.

³ Finding: 2018-001, "Foster Care and Adoption Cluster – Eligibility."

Commissioner Jacobs stated she sits on the board of directors for DSS and did not remember there being so many findings for DSS the previous year. Mrs. Tezai informed the board that the findings have decreased, and that is an improvement from last year. Ms. Jacobs explained the findings felt alarming. Mr. Duda responded there were no material findings and the findings were not unusual. Mr. Duda acknowledged the compliance manager position has helped eliminate the number of findings for the Single Audit. Ms. Tezai explained that the Compliance Manager helps the auditee's with forming internal controls and completes tests during the year to eliminate any findings. She further stated that since the creation of the position the findings have decreased significantly.

Mr. Rojas requested that Mr. Duda explain the repeat finding. Mr. Duda responded that Foster Care and Adoption Cluster have funding requirements, where they are supposed to look for funding in one bucket before taking it from another bucket. He stated that the documentation was not there to support money being taken from the second bucket when reviewed, and that it does not necessarily mean a mitigating control had not been implemented. Mrs. Tezai continued that starting on page fifteen of the "*Schedule of Expenditures of Federal and State Awards*" report, the county responses were provided to the four findings detailing how the County would mitigate the finding to ensure it does not happen again.

Mr. Rojas questioned what they were going to do if it was in next year's findings? Mr. Duda replied, he would look at the known or questioned cost of completing the task. Mr. Duda explained if the error was estimated at 15,000 dollars', then possibly the county would have to refund 15,000 dollars. Mr. Gordon repeated that the 15,000 dollars would be the maximum risk in this situation, not necessarily the actual. Mr. Duda clarified that he is communicating the exposure is potentially 15,000. Mr. Duda continued to explain when a granting agency notices repeat findings, they may send someone to conduct an audit. During the 2019 audit, the sample size will be increased for repeat findings. Mr. Duda continued to explain granting agencies will not just cut the funding off, there will be a lot of correspondence back and forth, initially. Mr. Rojas asked if the sample size was a statistical sample size. Mr. Duda confirmed that sample size is statistically selected. Mr. Gordon asked if the errors could be corrected through training. Mr. Duda expressed that there was potentially turnover and that there were not enough hours in the day to train employees on everything. Mr. Duda mentioned correcting the error now and then going back to correct older files would be time consuming and unreasonable. Mrs. Moore mentioned that the supervisors are completing quality reviews for each file.

In terms of required communications, the only difference between this year and prior years is GASB 75. As previously communicated, this new accounting principle is the only new item adopted. There was a restatement of beginning fund balance

within the CAFR. Mrs. Jacobs commented that she wondered how Moody⁴ would feel about restated fund balance. Mr. Duda explained, "this is a normal process and common process. Moody should not respond negatively at all."

Next, Mr. Duda explained the CAFR had been issued to the Local Government Commission (LGC) prior to their deadline of October 31st. The LGC approved the CAFR without any comments or recommendations of change. The CAFR has gone through a system of internal reviews at Cherry Bekaert (i.e., a manager's review, Mr. Duda's review, and a second partner's review). Also, the CAFR was submitted to the Government Finance Officers Associated (GFAO) for review. The County should expect the GFAO's comments back by May/June 2019. Mr. Duda confirmed his availability to discuss the financial statement audit with the Board of County Commissioners (BOCC) on 14th of January.

Mr. Rojas requested the deficiencies be explained in further detail. Mr. Duda responded that on page twelve of the single audit it was detailed there. He explained there were four cases out of sixty tested, where signatures were not present, or forms were missing from the files. In further detail he explained there had been four files with three different types of forms missing. The corrective actions are on page fifteen. Commissioner Jacobs articulated that it was sad that social workers spend most of their time filling out forms. Mr. Duda completed the discussion by pointing out his contact information on the last page of the slide show. Mr. Duda requested any concerns be communicated to him. Mr. Rojas requested the audit be provided two weeks prior the AOC's regularly scheduled meeting going forward, so the committee will have time to review the information.

C. Introduction of new board member, Dr. Nicole McCoy – Mr. Arnold Gordon

Mr. Gordon introduced Dr. Nicole McCoy.

D. Election of officers

Mr. Gordon requested the nominations for Audit Committee Chair position. Commissioner Jacobs nominated Mr. Gordon and Commissioner Carter seconded. Mr. Gordon was unanimously approved as the Chair. Mr. Gordon nominated Mr. Rojas as Vice Chair and Commissioner Jacobs second the nomination. Mr. Rojas was unanimously approved as Vice Chair. Mr. Gordon nominated Dr. McCoy as the Secretary.

E. Closed Session

MOTION TO ADJOURN INTO CLOSED SESSION PURSUANT TO N.C.G.S SECTION 143-318.11(6) TO CONSIDER THE QUALIFICATIONS, COMPETENCE, PERFORMANCE, CHARACTER, FITNESS, CONDITIONS OF APPOINTMENT, OR CONDITIONS OF INTIAL EMPLOYMENT OF AN

⁴ Moody is an investor service that rates the credit worthiness of borrowers and debt securities in bond markets. These markets include: government, municipal, and corporate bonds.

INDIVIDUAL PUBLIC OFFICER OR EMPLOYEE OR PROSPECTIVE PUBLIC OFFICER OR EMPLOYEE; OR TO HEAR OR INVESTIGATE A COMPLAINT, CHARGE, OR GRIEVANCE BY OR AGAINST AN INDIVIDUAL PUBLIC OFFICER OR EMPLOYEE.

F. Status of the 2019 Annual Audit Plan – Mrs. Darlana M. Moore

Mrs. Moore discussed the status of the 2019 Annual Audit Plan. She explained that the Sheriff Turnover Audit report is being finalized. Commissioner Jacobs asked when the Sheriff Turnover report would be discussed with the new Sheriff. Mrs. Moore explained a meeting had already been held and the report provided to the Sheriff. The report will be presented at the next Audit Oversight Committee meeting on March 12, 2019.

Mr. Rojas asked if there were occurring issues that were not on the audit plan. Mrs. Moore replied there were issues that had arisen; however, time was built into the audit plan for investigations. Mrs. Moore stated she had completed the Sheriff Turnover Audit and an investigation on her own. Ms. Moore assigned audit staff to do a County Cash Audit. Mr. Gordon requested clarification that Mrs. Moore had been performing the audit and investigation on her own. Mrs. Moore clarified that was correct. Mr. Gordon stated the need for more staff within Internal Audit. Commissioner Jacobs responded there is not a department within the County that does not have a list of staffing requests. Commissioner Jacobs stated she is on the Health and Human Services Board and there are requests for many employees to help with case work.

G. Status of audit staffing – Mrs. Darlana M. Moore

Mr. Gordon stated there is an inadequate number of audit staff and acknowledged there is market competition. Mr. Davis explained that audit staffing has been a challenge since 2004, it was recommended at that time there should be four audit staff members. There are currently three positions dedicated to Internal Audit, including the Director's position. Mr. Davis will look for opportunities to expand staffing during the budget process. This will give the opportunity to review the vacancy rates in terms of resources available. Mr. Gordon stated it is very critical to have audit staff to prevent potentially very public incidents. Mr. Rojas responded that audit teams are often short staffed and that is why it is critical to have a risk assessment. He also explained that there needs to be a limitation to added projects.

H. New Business

Commissioner Carter motioned to have the New Business Discussion be held as a closed session and Commissioner Jacobs seconded to go into closed session. The motion was approved unanimously.

I. Old Business

Mr. Gordon discussed that at the previous meeting, Commissioner Hill had brought up concerns of confiscated weapons. Mrs. Moore responded that at the suggestion of the County Manager, the Sheriff's Counsel was asked to speak about the

confiscated weapons as the weapons take up a lot of space. The new Sheriff has brought in new Counsel and the old Counselor has joined the County Attorney's Office. However, the new Counsel from the County Attorney's Office has not been officially employed and could not speak at today's committee meeting. Mrs. Moore requested this discussion be tabled until the meeting on March 12, 2019.

Mr. Rojas asked if this is an audit matter or if it something that needs to be addressed by Counsel. Mr. Gordon expressed this is a risk and liability. Mr. Rojas agreed it was a risk. Mrs. Moore responded it was proposed to bring General Counsel and the Sheriff/Sheriff Counsel in to explain the situation concerning confiscated weapons. Mrs. Moore explained she has inventoried the evidence room and obtained pictures, however General Counsel is unavailable until March. Commissioner Jacobs asked if it really was a room full of guns. Mrs. Moore confirmed there is a room full of guns. Mr. Gordon asked, "if the weapons were evidence, are there state laws or regulations for confiscating and destroying the weapons? How long can confiscated weapons be kept before destroying or selling them? Mrs. Moore explained the law has been changed and that the guns cannot be disposed without a Judge's consent. Most of the related documents pertaining to the guns cannot be located within the Clerk's office in order to bring before a Judge, so District Attorney has been unwilling to sell or destroy any of the weapons.

Mr. Rojas asked if explosives were being held. Mrs. Moore responded there is an explosive being held offsite in a parking garage. Mrs. Moore further explained that the explosive is not active. Mr. Gordon responded that every weapon retained is an added risk. Mrs. Moore offered to forward the statute(s) to the committee. In the meantime, the discussion will be tabled until the March meeting.

J. Next Meeting Date:

March 12, 2019, 3:30pm.

IV. Adjournment

There being no further business, the meeting was adjourned at approximately 4:54pm.