



**December 10, 2019**  
**Durham County Audit Oversight Committee Minutes**

**I. Call to order**

The meeting was called to order at 3:30 pm in the Admin II building, Room 466, located at 201 East Main Street, Durham, NC 27701.

**II. Members**

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

Absent: Commissioner Wendy Jacobs (excused absence); Commissioner James Hill (excused absence) and Heidi Carter, (excused absence)

Presenter: Darlana M. Moore, Internal Audit Director and Scott Duda, Cherry Bekaert-Partner

Others Present: Claudia Hager, General Manager; Susan Tezai, Chief Financial Officer; Sharon Davis, Register of Deeds; Greg Marrow, Chief Information Officer; Lyvon Garth, Chief Information Security Officer; Omar Samaha, Internal Auditor; Gina Addicott, Internal Auditor Trainee

**III. Business**

**A. Prior Meeting Minutes – Mr. Manuel Rojas**

Mr. Rojas moved, and Dr. McCoy seconded, the motion to approve the minutes from September 10, 2019. The minutes were approved unanimously.

**B. Cherry Bekaert Financial Audit Presentation-Scott Duda, Partner**

Mr. Duda emphasized the importance of reviewing certain sections of the Comprehensive Annual Financial Report (CAFR) opposed to reading the entire 200 plus page document. He stated the CAFR is constructed as such:

- Management’s Discussion and Analysis – provides information concerning the budget, budget vs. actual, and the future budget.<sup>1</sup>
- Government-wide Financial Analysis – provides a condensed summary of the County’s operations.<sup>2</sup>
- Footnote section – provides a narrative of everything that took place within the County. It has a lot of good information concerning pension obligations, debt, and capital assets.<sup>3</sup>
- The Schedule of Expenditures of Federal and State Awards – This is the compliance section which consists of all money spent from grant money is summarized within this section.

Mr. Duda stated the once the books were closed for the year, Cherry Bekaert audited the financial information. The audited information goes through second partner review who is not involved in the day-to-day operations. This individual conducts an independent review of the audited financial statements. Once the CAFR has gone through an internal review within Cherry Bekaert, it is submitted to the Local Government Commission (LGC) for review. The LGC will then send comments to the CPA firm concerning changes that need to be made or suggestions for the subsequent fiscal year. Once the LGC has approved, the CAFR is then submitted to the Government Finance Officers Association (GFOA) for review and certification of content and format.

Cherry Bekaert submitted the CAFR to the LGC prior to the December 1, 2019 extended deadline. The LGC approved the CAFR on December 4, 2019 without any comments. The CAFR has not been submitted to the GFAO to-date.

The audit was conducted in accordance with a number of standards (i.e., Generally Accepted Accounting Principles (GAAP), Generally Accepted Auditing Standards (GAAS), and provisions of the Single Audit Act requirements of Title 2 U.S. Code of Federal Regulation (CFR) for Federal Awards (Uniform Guidance), and North Carolina state law for state funds).<sup>4</sup>

Mr. Duda further stated that Cherry Bekaert audits do not relieve County management from their government responsibilities. The financial statements belong to the County. At the end-of-the-day, Chery Bekaert is only opining on the material correctness of the statements. This information can be found within the Auditor’s report.<sup>5</sup> This is the highest-level Cherry Bekaert can give that is reasonable without all absolute assurance. Cherry Bekaert does not look at every transaction.

There were some debt disclosures, cash investments (SWAP), receivables and revenue (both governmental and proprietary), accounts payable and expenses, debt liability (debt as well as pension obligations), and the Single Audit (all federal and state programs). They are required to obtain a certain amount of coverage every year. They are also

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<sup>1</sup> 2019 Comprehensive Annual Financial Report, *Management’s Discussion and Analysis*, page 3.

<sup>2</sup> 2019 Comprehensive Annual Financial Report, *Government-wide Financial Analysis*, page 4.

<sup>3</sup> 2019 Comprehensive Annual Financial Report, *Footnote Section*, page 59.

<sup>4</sup> 2019 Comprehensive Annual Financial Report, *Letter of Transmittal*, pages vii and viii and 2019 Schedule of Expenditures of Federal and State Awards, pages 1-8.

<sup>5</sup> 2019 Comprehensive Annual Financial Report, *Report of Independent Auditor*, Financial Section, page 1.

required to test every smaller level program that exceeds a certain threshold every three years. They inquire concerning any current litigation, as well.

The financial statements opinion and Yellow Book opinion were both *unmodified*. There were no noted findings with internal control issues and no findings of noncompliance with statutory regulations.

The compliance section is both in the CAFR and a stand-alone document, as well.<sup>6</sup> The uniform guidance is the federal grant. There are three opinions within the compliance section: 1) internal control opinion, 2) opinion on federal grants, and 3) an opinion on state grants. There is not a concept of materiality when discussing compliance. The granting agency asks the County to do certain things and the County responds as to whether they have done them or not. It's not a matter of whether most of those things were done or not. Any finding within this section will be reported.

For medical assistance, there was one internal control finding.<sup>7</sup> One case file of the 60 tested did not contain a corrective action concerning eligibility during the fiscal year. There were several of these findings in previous years; however, only one this year. Ms. Tezai stated on page 12, "you can see the County's corrective action plan. Mr. Rojas asked Ms. Tezai to expound on what is the corrective action plan." Ms. Tezai then read the three corrective actions cited on page 12 with a proposed completion of February 2020 with Finance's compliance officer to follow-up.

On pages 9 and 10 of the same report is a summary of the auditor's results. This page summarizes the types of opinions, any findings, summaries of major federal programs on page 9 and state programs on page 10. The dollar threshold is also reported on the bottom of page 9.

There is also a debt covenant compliance opinion within the CAFR. This is required as per the debt agreement. This opinion is only concerning whether the calculation appears reasonable or not.<sup>6</sup>

Mr. Gordon inquired as to whether the County had any undue risks in relation to litigation. Mr. Duda replied, "no." Cherry Bekaert reviews all legal invoices to determine who the County is paying professional fees to various attorneys. If fees are paid for research on an active case, Cherry Bekaert will contact the firm directly and ask them to respond in writing. Cherry Bekaert will give them a dollar amount and inquire as to whether the attorney thinks the litigation will exceed that amount. There were none during the audit. Mr. Gordon asked whether there were any class action suits against the County. Mr. Duda stated he was not aware of any.

Mr. Rojas inquired as to why there was no management letter. Mr. Duda replied there have been management letters in the past. However, there were a few information technology findings but nothing that would rise to the level of a significant deficiency or material weakness. Mr. Rojas asked whether Mr. Duda would provide a management letter even if nothing material was found? Mr. Duda replied, "no."

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<sup>6</sup> 2019 Comprehensive Annual Financial Report, Compliance Section, page 231.

<sup>7</sup> 2019 Schedule of Expenditures of Federal and State Awards, page 11.

### **C. Discussion of the Following Internal Audit Submission - Register of Deeds (ROD)**

Ms. Darlana Moore introduced Ms. Sharon Davis, Register of Deeds; Greg Marrow, Chief Information Officer, and Lyvon Garth, Assistant Director of Information Security. Ms. Moore presented the Register of Deeds Audit findings as follows: escrow accounts were not properly escheated, lack of segregated duties for indexing, lack of written policies and procedures and lastly, the County-wide issue of noncompliance with Payment Card Industry Data Security Standards (PCI DSS). Mr. Rojas asked for further explanation of PCI DSS. Ms. Moore explained that PCI DSS payment security is required for all entities that store, process or transmit cardholder data (for major credit cards). Guidance for maintaining payment security is provided in PCI security standards. These standards set the technical and operational requirements for organizations accepting or processing payment transactions, and for software developers and manufacturers of applications and devices used in those transactions. Mr. Garth explained the risk that the County is trying to address is the information that is going through the County network. One of the things that IS&T is attempting to do is to move the information from the network to an analog telephone line to prevent the credit card data from going across the network. We are also investigating another potential solution whereas the device itself encrypts credit card data so the data is protected from the point of scanning all the way to the provider. This is in the investigative phase right now. Ms. Moore also explained that if there is a recognized breach within the County, the County could be fined a substantial amount of money.

Mr. Rojas asked what was the difference between what's happening now and what's happening at the typical department store? What is the difference between the terminal the department stores are using and the terminal the County is using? Mr. Garth states once an organization realizes they are going to use credit card information, they have what is called a QSA (Qualified Security Assessor) assess the security for the credit card reader to ensure it meets the PCI DSS compliance standards. The County has not had the PCI DSS assessment performed for us by a QSA.

IS&T is currently looking at the fact that we have credit card readers within all the departments throughout the County and there is a risk of that data is traversing our infrastructure. Mr. Garth stated that we need to stop that from happening. Mr. Rojas reiterated that the information goes through our network opposed to going directly where it should go? Mr. Garth agreed. Mr. Rojas stated so we do not know what the card reader is currently transacting and is that with the chip and the slide reader? Mr. Garth stated with the chip, the information is more protected; however, if the card does not work and they must swipe it, that is the problem. IS&T is further investigating the matter. Mr. Rojas stated that the chip does have some security built around it. Mr. Garth agreed.

Mr. Gordon asked what was the percentage the County pays to major credit card companies or banks? Ms. Tezai stated that each department has their own credit card processors. She stated that she was unsure as to the various rates per department. She would research the information and report back to the committee at the next meeting on March 10, 2020. Mr. Rojas asked if this process was decentralized or should it be centralized, and everything come through Finance? Finance should have a pulse on how much the County is being billed for all the readers throughout the County. Ms. Hager stated a lot of these negotiations happened years ago under the previous CFO. Ms. Hager stated they can put a list together detailing what the percentages are for the next meeting. Mr. Rojas questioned how much the County is paying and how many transactions are being processed per department. He stated this is information the County should know. Mr. Davis stated that the department heads will discuss uniformity in that space during the next department head meeting. Ms. Hager stated this is a question that has not come up previously and that she and Susan will review the contracts to assess whether uniformity is best for the County.

Mr. Gordon stated there are a lot of subsidiary questions. How much are we paying? Can it be reduced if we make the process uniform throughout the County? He stated when he pays his tax bill, who pays the fee, him or the County? He stated more than likely the County; therefore, the County is losing one percent or two percent in revenue towards the tax bill. He stated that was a big number. He does not understand why the County is decreasing the inflow of revenue for the use of credit cards when it is being done for the convenience of the taxpayer. The basic question is why we are allowing it at all so that we would not have a security issue. He states that a uniform system throughout the County must reduce overall costs. Ms. Hager stated this is something they dealt with in higher education and they had a lot of uniformity.

Mr. Gordon inquired about recordation fees. Ms. Davis stated that currently they do not accept credit card payments for recordation fees, only vital records. The Register of Deeds pays a ten-cent transaction fee for each credit card transaction. Mr. Gordon asked whether this covers the County's credit card costs? Ms. Davis stated she did not know. She stated the ROD's has been using credit cards as a form of payment for a while; however, they have discontinued the use of checks. The reason for the discontinuance of checks is because it became almost impossible to get the District Attorney to prosecute someone for a ten-dollar check.

Ms. Moore further stated there were findings concerning the Business Continuity Plan within the ROD's and the lack of communication between the ROD's, Risk Management, and IS&T. Ms. Davis worked with the County's Risk Manager to resolve this issue. Ms. Moore stated the ROD's strategic plan needs to be updated. Surveillance cameras above the cashiers are not being utilized. Ms. Davis stated this issue has been resolved. There is a 360-degree camera view in which she can view from her office. This was installed after the audit. Mr. Rojas asked whether any recording was taking place. Ms. Moore stated during the audit, these cameras were not recording. Mr. Rojas asked if the cameras are recording? Ms. Davis stated

she did not know. Mr. Rojas asked how the cameras are managed, cared for, and recording. Ms. Hager stated she would obtain further information from the Security Manager concerning the cameras. Mr. Rojas asked for a full report detailing how the system works, whether the cameras are on continuous recording, and how long information is kept.

Ms. Moore stated the final issue is the bullet proof glass. The glass within the ROD's and Tax departments are subpar. Ms. Moore also stressed that active assailant training should be provided to staff.

Dr. McCoy asked whether the County owned the credit card terminals. Ms. Davis stated the ROD's owned their terminals. Mr. Marrow and Ms. Tezai will return to the March meeting in order to discuss PCI compliance, credit card terminals (whether they are owned or leased), and how much the County is paying in credit card fees per department. Also, to answer the question as to would it be better to centralize the process?

Ms. Davis was going to implement terminals within real estate; however, she will refrain until further notice from IS&T.

#### **D. Discuss of On-going Work - Ms. Darlana Moore**

Ms. Moore clarifies that Internal Audit is currently wrapping up the Cash Audit and moving into exit conferences. Internal Audit is starting the Payroll Audit.

#### **E. Discussion of Audit Staffing**

Ms. Moore stated at the last meeting, the AOC voted on a resolution to hire three additional staff. Mr. Gordon stated that Ms. Moore was supposed to send a letter for the AOC to review and approve. Ms. Moore stated she inquired with Ms. Hager who stated a resolution was not an appropriate approach. Ms. Moore proposed adding two positions to her budget opposed to three. Mr. Gordon asked Ms. Hager if Audit would get the money for the positions? Ms. Hager stated this is a tough budget year and she did not know. She stated that management has increased support for infrastructure for compliance for hiring the talent. She has been here for five years now and when she started with the County, the County only had one CPA. Now, the County has at minimum five or six CPAs. Finance has asked for additional positions; however, only one position has been filled to support departments in relation to compliance. The purpose of creating this position was to get in front of the process before things float to Internal Audit. When looking at the bigger picture, we have tried to balance the growth of positions strategically. She is sure the Manager will recommend in his budget positions; however, she is unsure as to what that number will be.

Mr. Gordon stated this is the reason why the AOC wanted a letter sent to the Board of County Commissioners (BOCC). Mr. Gordon further stated if something blows that could have been found in an internal audit and the media becomes aware of

the fact that we only have two staff for the entire County (one of the most populous counties within the state), it will be embarrassing to the AOC and BOCC.

Ms. Hager asked Ms. Moore if a time-limited position was not authorized for audit. Ms. Moore affirmed this position has been authorized for one year. Ms. Hager stated the way it works is such that it gives Audit the ability to get an additional person while we are in transition with the budget process. The BOCC gets so many requests outside of the cycle that it blends into the overall ask and the Manager's way of response was to provide the time-limited position so that Audit could obtain some relief. It is the AOC's decision if they would like to submit a letter.

Dr. McCoy asked if it were true that we are hedging for a recession during this upcoming budget season? Ms. Hager stated she is seeing some slowing in some areas but not in others. Durham County responds to a recession a little differently. The County is normally slow to come in and slow to come out of a recession. There are additional factors; therefore, we are only looking at two positions opposed to three. Ms. Hager stated the County looks at the projected revenues and expenditures. There is a six million revenue status that is going away.

Dr. McCoy asked how do we properly balance the risk and exposure with the monetary potential reduction? Ms. Hager stated there are a lot of ways. The Manager can add positions. He can realign another position. He could still make the recommendation. Dr. McCoy asked if it was alright to still have the temporary funding for the third position. Ms. Hager stated this has already been approved. This time-limited position is established as a temporary position so that Audit can go ahead and get started. If a new position is created, we would have to go to the BOCC and establish a new FTE. This in turn becomes political. Then the optics are, you have taken administrative over safety.

Mr. Gordon stated because this issue is political, he wanted to read from the September 10, 2019 minutes. "Mr. Gordon made the resolution that a letter be sent to the BOCC requesting the addition of three full-time positions (of which one being an information technology auditor) within the Internal Audit department. Dr. McCoy second the motion, the vote was unanimous. In addition, Mr. Rojas asked Ms. Moore, etc., etc." Mr. Gordon stated what we asked for has not been done. It's been over three months now. Mr. Rojas stated the auditor does not report to the BOCC. Ms. Hager stated, "no, she does not." Mr. Rojas stated the auditor reports to the Manager. Any request for additional staffing should have to go through the Manager. Mr. Gordon disagreed. Mr. Gordon stated, "we are a committee appointed by the BOCC. When we see a problem that requires an action, it is entirely appropriate for us to send a letter to the BOCC, copying the Manager drawing their attention to the problem because this issue is political. We know it is a political problem, therefore the letter needs to be sent. If the BOCC has the letter in front of them stating that you must hire x amount of positions because the County is at risk, they should take a different attitude than if things are done under the rug. We must be open to the fact that the audit staffing is deficient here, that it could lead to expanded risks and frankly if we don't do that, I do not want any

parts of being on this committee. If all I'm going to do is talk to staff and nothing goes up the chain, then why am I here?"

Ms. Hager said she will clarify with the Manager and see how he would like to handle it. Dr. McCoy stated her concern is if audit obtains the two positions and maintain the temporary position, would the funds be available from year-to-year? Ms. Hager stated we are working toward the same goal. The intent is to fund the temporary FTE will remain in place even after Ms. Moore request the additional two positions. Ms. Hager stated she is sure the Manager will recommend a number whether it is a new position or taking a position from some place else. This is how we obtained the IT compliance person. That's how we obtained the compliance position within Finance. The Manager understands and is advocating and navigating it. Mr. Gordon stated he does not deny that. Mr. Gordon asked Mr. Rojas if the committee should proceed with the letter or repeal the resolution? Mr. Rojas stated the issue is that all departments are funded through a budget that is put together by the County Manager. The County Manager determines how much he/she wants to spend for Audit, IT, etc. The Manager will appropriate the funds, the BOCC reviews and approves the funds. Ms. Hager stated when this ask occurred for the two or three positions; two positions had just been filled. So, from a management prospective, let's see what the impact is when you have 100% staff.

The Manager does make a recommendation concerning the budget (e.g., schools, Sheriff Office, etc.) and the BOCC will review and sometimes tweak the budget, sometimes they do not. We have very rigorous cost-benefit analysis, benefit-analysis, and benchmark comparisons. Wherever we land, we want to ensure it protects everyone. The risks are there. The budget process is starting now. Mr. Rojas asked Ms. Hager if there are not two departments that deal with risk (i.e., Risk Management and Audit)? Ms. Hager agreed. Mr. Gordon stated that Risk Management also received five new positions. Mr. Rojas stated Risk Management deals with litigation and liability whereas Internal Audit deals with internal controls.

Ms. Hager mentioned previously concerning building capacity and infrastructure, you have fewer audit issues because we have a higher skillset within our Finance department. We are expanding compliance within individual departments, as well. Mr. Rojas stated we can only measure that skillset through Internal Audit. Ms. Hager stated the benchmark for the compliance audit that Mr. Duda spoke of has been raised for the past three years exponentially. The County continues to be below our peers with the number of audit findings because on the Finance side, the BOCC supported more dollars for compliance support staff. The compliance side handholds the auditee while checking for compliance. This is how they get there before Internal Audit. The County doesn't have a problem because compliance is getting there first. ***Mr. Rojas stated compliance is an entirely different ball game than internal controls.*** Ms. Hager stated she understands; however, we are hiring talent that can work in either space. The young lady that is in compliance use to work for the UNC system and all 16 campuses. She also worked with the State Auditor.



Mr. Gordon interjected that the question is what is the AOC going to do to impress the BOCC with the fact that the County is barely above water within the Internal Audit department? Internal Audit cannot stay abreast of what is going on with a staff of two people. His question is still on the floor. He realizes that compliance has been increased, he's not questioning anyone's motives or accomplishments, he is questioning the fact that no one wants to increase staffing within Internal Audit. He has been on this committee since 2015 and there was virtually no staff then and we have virtually no staff now.

Mr. Rojas suggest Mr. Gordon draft the letter and the three public members sign the letter and send it to the BOCC. Mr. Rojas stated there has always been a participation issue. We have commissioners who are members of this committee. We hope these commissioners take these issues to the BOCC and argue our point. This has never occurred in the past. Mr. Gordon stated he doesn't want to be the Grinch who stole Christmas. This issue has been presented before one sometimes two County Commissioners and it never goes anywhere. It is not in writing; it is not directed to them and it does not challenge them to face the problem. I am sorry to say this because I do not mean to impugn anyone's motives.

Dr. McCoy stated she agreed with Mr. Gordon because knowing the County could possibly be going into a recession, the committee needs something that's there because an audit universe should be covered in a five- or six-year period and we do not have the proper staffing to cover our risk and audit universe. This cannot happen continuously. That being said, we don't know how well things are doing and we don't know how bad things are doing because we don't have enough staff to cover that audit universe within that five- or six-year period. Unless we set it and put it out there and have some type of conversation above our conversations over the last year I've been here, then it is not going to get done.

Dr. McCoy stated the conversation is very poignant right now because the budget season is approaching and we need the two positions; however, we need to also maintain the temporary funding. There are a lot of other departments requesting staffing. If we express the current risk, the temporary money will not go away. Mr. Rojas asked Ms. Moore where we were in relation to recruiting for the temporary position. Ms. Moore replied she has recruiters working on the position and is currently obtaining resumes. Mr. Rojas asked Ms. Moore whether she was looking for audit and IT or just IT? Ms. Moore stated whatever she can find at this time. Ms. Moore went on to state that with her current funding, there is no way she can hire an IT auditor. The recruiters are trying to find auditors with financial and information technology experience. Mr. Gordon stated we are in a very low unemployment market, particularly for higher skilled professionals. Western Durham County is expanding, and the tax base is expanding. Mr. Gordon stated he doesn't want to make this a political agenda; however, Internal Audit needs a piece of the action.

**F. Discussion and Approval of Amended Annual Plan- Mr. Manual Rojas**

Ms. Moore stated at the last meeting she was told to increase administrative hours and remove a few audits for the up-coming year. Ms. Moore removed three audits from the audit plan and two audit follow-ups. Ms. Moore selected the audits to be performed based on the risk model. The Tax Audit, Accounts Payable and Child Protective and Adult Protective Services Audits were removed from the 2020 Audit Plan. Mr. Rojas pointed out that the Payroll Audit should have been completed this year since it is on the 2019 Audit Plan. Mr. Gordon moved to approve the changes amended to the Audit Plan and Dr. McCoy seconded, the vote was unanimous.

**G. New Business - None.**

**H. Old Business – None.**

**I. Next Meeting Date:**

March 10, 2020, 3:30 pm.

**IV. Adjournment**

There being no further business, the meeting was adjourned at approximately 5:08 PM.