

December 14, 2010
Audit Oversight Committee Minutes
Durham County

I. Call to order

The meeting was called to order at 2:11 p.m. in the County Manager's 2nd Floor Conference Room; 200 East Main Street, Durham, NC 27701.

II. Members

Present: Commissioner Page, Chair; Manuel Rojas, Vice Chair; Sid Stroupe, Secretary; William Pierce, member; Commissioner Reckhow, member; Commissioner Howerton, alternate

Absent: Michael Ruffin, County Manager (excused absence)

III. Others Attending

Wendell Davis, Deputy County Manager, acting for County Manager
Carolyn Titus, Deputy County Manager, Presenter
George Quick, County Finance Director
J. Scott Duda, Cherry, Bekaert & Holland Representative, Presenter
Derek Glunz, Cherry, Bekaert & Holland Representative, Presenter
Richard Edwards, Internal Audit Director
Brian Welch, Internal Auditor

IV. Business

- A. **Prior Meeting Minutes.** Commissioner Reckow moved and Commissioner Howerton seconded approval of the October 12, 2010 minutes as presented. A voice vote carried and the minutes were approved.
- B. **Committee Member Introduction.** Mr. William Pierce, Oversight member, formally introduced himself to the Committee. Bill is a Senior Manager in the Risk Advisory Services practice of Jefferson Wells International. He is a CPA and CISA with 30 years experience in external audit, internal audit, finance, and IT. Bill apologized for his absence from the October meeting when he was called for jury service.
- C. **External Audit Reports & 2010 Comprehensive Annual Financial Report [CAFR]**
J. Scott Duda, CPA and Partner of the Raleigh office of Cherry, Bekaert & Holland LLP [CBH] introduced the engagement team and stated the deliverables under the external audit service. He reviewed the five audit reports, all with an Unqualified Opinion from CBH, dated October 27; for information and statements presented by the County as of June 30, 2010:
 - 1. *"Report on the Durham County Financial Statements"*, presented in the CAFR.
 - 2. *"Report on the Revenue Bond Covenant Compliance"*, specific to *"Schedule of Debt Covenant Compliance"* (2003 Revenue Bond), a sub-schedule of the CAFR.

3. "Report on Internal Control over Financial Reporting and Compliance required by Government Auditing Standards [GAS]", a report focused on the "Statement of Expenditures of Federal and State Awards" [SEFA]
4. "Report on Compliance and Internal Control Over Compliance", applicable to Major **Federal** Program/Awards under SEFA
5. "Report on Compliance and Internal Control Over Compliance", applicable to Major **State** Program/Awards under SEFA

The CBH audit of the financial statements points reports an uncollateralized "Inmate Welfare Fund" bank account, opened by the Sheriff's Office in 1993 as a personal account, and recorded in Durham County's name and using the County's tax ID. The County Finance Department has assumed ownership of the account; its balance is now reflected in the financial statements. The internal control issue has been closed, going forward.

The 2010 CAFR includes a prior period adjustment of \$2.4M, due entirely to implementation of GASB No 53 "Accounting and Financial Reporting for Derivative Instruments".

As part of the audit of the SEFA, CBH reported a nonmaterial matter of noncompliance (time reporting) which has been resolved. A 2009 noncompliance issue related to domiciliary care has been resolved as well.

For the benefit of new committee members, Mr. Duda and Mr. Quick provided some background around the CBH work relationship with Durham County. CBH has performed the audit for a number of years; the current audit manager has performed the service for the last five years. The ongoing relationship is mutually beneficial to both parties: it helps streamline the audit process, provides continuity of personnel without compromising independence and it helps decrease the incremental cost of the audit service. Members were reminded that the current contract was formally "bid out" two years ago and competitively awarded to CBH. As information, CBH provides audit services for nine of the ten largest NC governments.

To clarify several questions, Mr. Duda explained that CBH only considers the County's internal controls in order to determine their audit procedures --- for the purpose of expressing their opinion on the financial statements. CBH does not provide assurance on the internal controls themselves and does not include tests of control policies and procedures as part of the engagement.

After much discussion it was decided and agreed that Mr. Quick will present, with CBH assistance, the 2010 CAFR as well as the CBH Auditor's Report to the Board of County Commissioners [BOCC].

Mr. Duda thanked the Durham County Finance Department for their continued assistance in meeting the LGC deadline and supporting the external audit service.

Looking forward to next year, it was suggested that the CBH briefing document would be more user-friendly if the pages were numbered. Mr. Duda agreed.
Action: CBH. Richard Edwards will remind CBH during the next audit cycle.

Several members requested that in 2011, the CAFR and all external audit documentation, including the "Single Audit Report", be provided to committee members at least a week before next year's meeting in order to facilitate discussions with the CBH team and County Finance Department. Mr. Edwards offered to insert this request into next year's calendar. Also Mr. Rojas requested that, going forward, the Durham County ABC Board audit report be provided to the Oversight Committee. While the ABC Board is a separate entity, its financial information is presented as part of the "Government Wide Statement of Net Assets".

Action: Richard Edwards & George Quick

Mr. Pierce moved and Commissioner Reckhow seconded the motion to recommend acceptance of the CAFR by the Durham County Board of County Commissioners. This motion was accepted by the Committee.

D. Internal Audit Report Follow-up: *Durham County Sheriff's Office*

The Committee discussed the implementation status of the recommendations, made in mid-2010, for improved internal controls over the financial function:

- a. The Sheriff continues to analyze his options: (1) agree to a County takeover of the Sheriff department's financial function or (2) hire a comptroller, internal to the Sheriff's department, to implement the recommendations and formally manage the finance function going forward.
- b. Due to his excused absence, Mr. Ruffin stated in his email to the Committee, dated November 4, 2010, that he would provide a status report at the first meeting of 2011.
- c. Citing the March timeframe, Mr. Page and other members requested that Mr. Ruffin (directed through Mr. Davis) place a higher priority on discussions with the Sheriff's Office so as to enter into a resolution more quickly. Committee members will be notified by E-mail, if more expedient.

Action: Mr. Ruffin

E. Internal Audit Reports and Audits In-Process:

"EMS Reimbursable Expenditure Reporting by Volunteer Fire Departments", report dated 11/17/10. The Committee discussed the recently completed audit of four Volunteer Fire Departments that are reimbursed quarterly by the County for EMS expenditures. In FY2009, the County provided \$1.4M to the four VFDs under this reimbursement agreement. The summary findings and internal audit's recommendations are provided in Appendix A to this document.

Mr. Edwards stated that there were no findings of fraud in the reimbursement process.

Carolyn Titus, Deputy County Manager, stated the VFDs are willing to comply with the internal audit recommendations.

In a letter dated October 15, 2010, Mike Smith, EMS System Director, outlined specific actions that his staff will take (and associated resolution dates) to implement recommendations for Audit Findings A-C. As for Finding D, Mr. Smith states that he will support the Fire Marshal's efforts to encourage financial audits.

A secondary question related to Finding D was raised - aimed at clarifying the funding source of the VFD's annual audit requirement. One committee member's view was that the audits are a component of the VFD annual budget and should be paid by each VFD. Another viewpoint was that the County general budget bears the cost. Commissioner Reckhow, questioning that the entire county should pay for individual tax district contractual requirements, requested more discussion at the next meeting as to who should bear the audit cost.

Action: Mr. Ruffin

"Parkwood Volunteer Fire Department", report dated 11/17/10. This internal audit was a spin-off of the EMS reimbursement audit (above) and specifically aimed at the Parkwood VFD financial processes that, according to the report, "obscure the clarity of the entity's financial position." The summary findings are:

- a. Debts unaccounted for in the Parkwood financial statements.
- b. Late Fees and finance charge assessments related to credit card.
- c. Parkwood's financial audit and financial statement presentation does not meet requirements of the County's Finance Department.

The summary findings and internal audit's recommendations are provided in Appendix A to this document.

In a letter dated October 19, 2010, Jeffrey L. Batten, Durham County Fire Marshal / EMD, concurs with all internal audit findings and recommendations. Much of the remediation effort will be supported by the Durham County Finance Department.

Commissioner Reckhow moved and Mr. Rojas seconded the motion to approve both the EMS and Parkwood audit reports. The motion was accepted.

"Durham County Accounts Payable", begun October 29, 2010. Status: In-Process. Mr. Edwards and Brian Welch, Internal Auditor, provided the Committee a status report of the Accounts Payable internal audit. The field work is nearly complete, with no significant findings to-date. The report draft is "in-progress".

F. March Regular Meeting:

The March regular meeting has not been scheduled due to conflicts with BOCC business on that date. The meeting will be held in February instead but the exact date has not been decided. Mr. Edwards will coordinate a meeting date to accommodate Committee members.

Action: Richard Edwards

G. 2011 Internal Audit Risk Assessment:

Mr. Pierce requested that at the next meeting, Internal Audit brief the Committee on the "2011 Risk Assessment" exercise. The committee wishes to understand the assumptions and methodology used to complete the assessment, prior to its formal presentation at the June 14, 2011 meeting.

Action: Richard Edwards

V. Adjournment

There being no further business, the meeting was adjourned at approximately 4:12 p.m.

Minutes submitted by: Sid Stroupe, Secretary

Minutes approved by:

APPENDIX A

"EMS Reimbursable Expenditure Reporting by Volunteer Fire Departments"

Report dated 11/17/10 – Findings and Recommendations

- A. Contracts between the four VFDs and EMS are outdated and do not address all expenditures (the VFD) deems reimbursable.
Recommendation: Restructure contracts to correct the conflicting expenditure reimbursement clause and provide a detail list of reimbursable expenses.
- B. Expenditures reporting improvements are needed.
Recommendation: Provide guidance as required to assist VFD representatives to devise more reliable information gathering, storage and expense reporting systems.
- C. Reporting is not standardized [format nor granularity] among the four VFDs.
Recommendation: Encourage VFD reps to report expenditures on the forms provided [to them] and in accordance with established instructions.
- D. VFDs are not compliant with the contractual requirement for an annual financial audit of their EMS expenditures.
Recommendation: Require, in cooperation with the Fire Marshal, VFD's to comply with financial audit requirements as stated in the VFD contracts.

"Parkwood Volunteer Fire Department"

Report dated 11/17/10 – Findings and Recommendations

- A. Debts unaccounted for in the Parkwood financial statements. Includes billing for automotive maintenance and repair, and one unpaid credit card balance.
Recommendation: The Fire Marshal should encourage payments of installment and revolving debt when it is due and payable.
- B. Late Fees and finance charge assessments [were incurred] related to credit card.
Recommendation: The Fire Marshal should communicate to Parkwood that Durham County does not allow for revolving accounts to accumulate balances, resulting in unnecessary costs to the County.
- C. Parkwood's financial audit does not meet requirements of the County's Finance Department.
Recommendation: The Fire Marshal should:
 - a. exercise his authority to demand audits that meet contractual requirements;
 - b. assist, in cooperation with the Durham County Finance Department, the VFDs to understand what information is required in audits in order to provide the appropriate visibility of financial condition and
 - c. reach an agreement with the Finance Department to review audit reports.