



**December 12, 2017**  
**Durham County Audit Oversight Committee Minutes**

**I. Call to order**

The meeting was called to order at 3:34 PM in the Durham County Manager's Conference Room located at 200 East Main Street, Durham, NC 27701.

**II. Members**

Present: Mr. Arnold Gordon, Chair; Mr. Harrison Shannon, Vice Chair; Commissioner Heidi Carter<sup>1</sup>; Mr. Manuel Rojas; and Mr. Wendell Davis, County Manager (Ex- Officio).

Absent: Commissioner Wendy Jacobs (Excused Absence) and Commissioner James Hill (Absent).

Presenters: Scott Duda, Cherry Bekaert and Claudia Hager, Durham County General Manager.

Others Present: George Quick, Chief Financial Officer; Susan Tezai, Deputy Chief Financial Officer; Darlana M. Moore, Internal Audit Director; and Alecia Amoo, Internal Auditor.

**III. Business**

**A. Prior Meeting Minutes**

Mr. Manuel Rojas moved and Mr. Harrison Shannon seconded the motion to approve the minutes. The minutes were approved unanimously.

**B. Introduction of new Internal Audit Director - Mr. Arnold Gordon**

Arnold Gordon introduced Darlana M. Moore as the new Internal Audit Director and he welcomed her to Durham County. County Manager Wendell Davis said that Darlana comes to Durham with an extensive background in the audit field. He said that she is a seasoned auditor with over 20 years of experience in the private and public sectors. Ms. Moore and County Manager Davis have discussed how Internal Audit will assist the County with utilizing metrics and data for Managing for Results.

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<sup>1</sup> Commissioner Heidi Carter is an alternate member, and she was present in place of Commissioner Wendy Jacobs.

County Manager Davis welcomed Ms. Moore and said that Durham County is happy to have her on board.

### **C. Discussion of 2017 External Audit – Scott Duda**

Mr. Gordon introduced Scott Duda from Cherry Baekart. Mr. Duda gave a presentation on highlights from Durham County's Financial Audit. Mr. Duda identified the audit areas of focus which included compliance reporting, cash and investments, receivables and revenue, accounts payable and expenses, single audit, off balance sheet risks such as litigation, and management's judgments and accounting estimates.

Mr. Duda informed the Committee that the audit of financial statements was designed to provide reasonable assurance as to whether the County's financial statements are free from material misstatements. Mr. Duda concluded that overall, Durham County is very healthy from an economic standpoint as well as from an 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 unmodified.
2. There were no findings related to internal controls.
3. There were no instances of statutory noncompliance.

For the Single Audit, Mr. Duda explained that Cherry Baekart is required to test a certain percentage of grant funded programs each year. Cherry Baekart tests Medicaid every year, but other programs are not audited every year. For programs other than Medicaid, Cherry Baekart identifies ones with expenditures that exceed \$3M and audits those programs on a rotating basis. Cherry Baekart also used a risk assessment to identify and audit programs. Mr. Rojas asked if Cherry Baekart relies on the Durham County internal auditors at all when developing the risk assessment. Mr. Duda replied "No," Cherry Baekart sets the risk assessment independent of County internal auditors.

Mr. Rojas asked about the sample size selection for audited programs and Mr. Duda explained that Cherry Baekart used a statistical sample to review transactions. He mentioned that it did not make economic sense to look at every transaction, so Cherry Baekart looked at a percentage of transactions. Mr. Duda also said that the sample sizes for Durham County programs are similar to the sample sizes in other counties.

Furthermore, Mr. Duda explained that the sample size in a program could increase depending on whether or not there are recurring findings from year to year. He explained that State Auditor has seen situations when counties had recurring findings, but the external auditors did not adjust program sample sizes. Mr. Duda stated that if there are recurring findings in a Durham County program, then Cherry Baekart will have to adjust the sample size when it audits that program; however, during the audit, only one repeat finding was found in a program. Thus, the sample size will increase for the program next year.

Mr. Rojas asked Mr. Duda to go over the findings. Mr. Duda said that Durham County only had a total of four (4) findings. Cherry Baekart examined 15 compliance

areas within each of the County's 320 case files. Mr. Duda stated that four findings are minimal compared to results Mr. Duda has seen at other places. He said that it would be very unusual for Durham County not to have any findings due to its size. He emphasized that the key is for Durham County to take the findings seriously and to address them. Mr. Gordon stated that based upon his review of the findings, the issues seem to stem from data entry. Mr. Duda acknowledged that the issues are administratively related. He said that the County's repeat finding is a common finding. The finding was that a DSS employee's day-sheet was not submitted timely to the State. When the employee uploaded the day-sheet information in the State's system, the employee did not include the full amount of time. Therefore, the employee's total time was not reported timely. Mr. Duda stated that sometimes, employees do not always account for administrative hours in a program, so they may not report administrative hours to the State.

For findings related to the County's compliance with the U.S. Office of Management and Budget (OMB) Compliance Supplement requirements, Mr. Duda said that there was one control deficiency noted for Foster Care and Adoption and one nonmaterial, noncompliance noted for Foster Care and Adoption.

Mr. Duda also explained that the "Known Questioned Costs" section under the programs is a summary of whether or not Cherry Baekart thinks that it is possible that the County spent money for items that were not in compliance. The "Known Questioned Costs" associated with the Foster Care and Adoption program was \$2,612.50 out of \$262M which is an immaterial amount.

Claudia Hager stated that DSS, the Finance Compliance Officer, and the County Commissioners have initiated strategies to bolster efforts to address previous audit findings. Mr. Duda said that he believes these efforts are working, and he recognized that there is a significant improvement in the documentation that Cherry Baekart reviews when auditing the County's programs.

Mr. Duda also explained matters required to be reported to the County. He stated that there was a change in the GASB 73 accounting principle related to reporting pensions. He said that liabilities for pensions, which have not been historically listed on the Statement of Net Position, must be listed on the Statement of Net Position. He also mentioned the two passed adjustments (new project in FY 2017 and the Library and Judicial Building projects), but he said the net impact of these adjustments was immaterial due to only affecting the Statement of Net Position.

The Local Government Commission (LGC) gives local governments a waiver until 12/01/17 to submit their CAFRs for review. Mr. Duda stated that Durham County submitted its CAFR to the LGC prior to 10/31/17, and the CAFR was accepted without any changes. The next step is for Durham County to obtain a certificate of achievement.

Mr. Duda concluded his presentation and asked the Committee if there were any additional questions. Mr. Rojas asked if there were any other internal control issues that the Committee needs to know about and Mr. Duda replied "No." He said if there were other findings, then he would have communicated them.

Mr. Gordon thanked Mr. Duda for his presentation.

#### **D. Old Business**

Claudia Hager, General Manager, gave an update on the Tax Administration and the Register of Deeds. She mentioned that at the last AOC Meeting, there were questions about internal controls in place for the Tax Administration and the Register of Deeds as well as a question about when the last audit was conducted in these departments. Claudia said that the last internal audit on Register of Deeds was in August 2015. She explained that the audit focused on cash handling controls. The report concluded that the cash handling controls were in place and operating effectively after being corrected from a previous audit finding. She also stated that the last Tax audit occurred in July 2013.

Claudia Hager acknowledged that one of the issues in the Wake County Register of Deeds office was voided transactions. Ms. Hager assured the Committee that Durham County Register of Deeds does not have a lot of voided transactions. Also, she explained that Durham County Register of Deeds has controls in place related to voided transactions including a voided transactions exceptions report and the Register of Deeds Director reviewing and approving voided transactions. Additionally, only the Register of Deeds Director and deputies are authorized to void transactions. Mr. Quick stated that there were previous instances when the Register of Deeds Director waived the fees for certain items and voided those transactions. Even in those instances, the Director placed a note in the system explaining what he did. Mr. Quick reassured the Committee that there are controls in place.

Ms. Hager also mentioned that the Durham County Register of Deeds follows the County's financial policies and procedures. Susan Tezai stated that all departments under the County funds must follow all financial policies and procedures. One Durham County policy requirement is that the Register of Deeds Director cannot handle cash in order to ensure appropriate segregation of duties.

Mr. Quick provided an analogy to the Committee to explain how transactions work in the Register of Deeds. He said that the Register of Deeds operation is similar to the operation at a department store. Every time the Register of Deeds sells something (i.e., marriage license), the item has to go through the system to be generated. The clerk has to punch information into the computer for the item and a document is produced. There is a record of the item sold and a record of cash paid for that item. The clerk can compare what came out and money that came in, so the cash can be tracked. Therefore, Durham County has a system of checks and balances in place to track the movement of funds. Mr. Quick mentioned that one of the issues with the Wake County Register of Deeds office was that transactions were manually conducted.

Mr. Rojas asked if the Register of Deeds balances its own system. Susan Tezai said that when the Register of Deeds is done for the day, the Finance Department accountant reviews deposit slips and documentation.

Mr. Gordon asked if there were Register of Deeds fees that were not used to process transactions. Mr. Quick replied that most counties do not make money off of the

fees. Mr. Quick said that the State sets the fees and Durham County just collects them. The fees are generally used for administrative purposes.

Mr. Rojas asked if Register of Deeds is a cost or revenue center. Susan Tezai said that it is both a cost and revenue center. Ms. Hager said that there are few county Register of Deeds operations that break even. For Durham County, the land transactions help with generating money. According to Mr. Quick, Durham County has not hit a year where there was not positive revenue.

Susan Tezai also said that since both the Register of Deeds and the Tax Administration are in the general ledger, they are in the annual audit, so this is another control. Furthermore, Ms. Hager said that another control is the use of cameras in the Register of Deeds and Tax Administration.

County Manager Davis announced that he found a news article which said the Wake County Register of Deeds and staff were indicted on charges related to stealing money from the office.

#### **E. New Business**

Darlana Moore gave the Committee an update on the status of Internal Audit work. She mentioned that it is difficult to assess the County's risks because she does not have enough staff or time to conduct a full risk assessment. Nevertheless, she said she has been reviewing Richard's County-wide risk assessment. She also utilized her peers and colleagues from places of similar size to determine major risks.

Currently, Internal Audit is conducting an audit on Contract Monitoring and Compliance. Internal Audit is in the planning phase now and will move into the fieldwork stage after the holidays. Internal Audit will also focus on the construction renovation audit in the new year.

#### **F. Next Meeting Date:**

March 13, 2018, 3:30 P.M.

#### **IV. Adjournment**

There being no further business, the meeting was adjourned at approximately 4:29PM.