

Minutes of Buncombe County Audit Committee
December 12, 2017
9:00 AM

Members Present: Larry Harris, Kendra Ferguson, Andrew Hoffman, Robert Pressley, Al Whitesides, Danny Yelton, and Mike Knepshield

County Staff Present: Terri Orange, Tim Flora, Jennifer Durrett, Mandy Stone, Diane Price, Krystal Frizzell, Blair Chamberlain, Dustin Clark, Kelly Houston

Others: Dan Mullinix and Tonya Marshall with Gould Killian CPA Group

The Audit Committee Chairman, Larry Harris, called the meeting to order at 9:00 AM.

Meeting Minutes

The minutes from the October 24, 2017 meeting were presented. There was no discussion. Commissioner Al Whitesides moved to accept the minutes, Commissioner Robert Pressley seconded the motion and the motion passed unanimously.

Financial Statements Review, Discussion and Acceptance

Tim Flora, CFO, introduced the review and discussion of the fiscal year 2017 audit of the financial statements by Gould Killian CPA Group (Gould Killian). Mr. Flora stated that he was pleased with the results of the audit. He added that the audited financial statements had been accepted by the North Carolina Local Government Commission (LGC) as submitted, but that the LGC had later asked that a subsequent event note about the Federal investigation of former county manager Wanda Greene be added to the statements, which request the County and Gould Killian will honor. Commissioner Whitesides stated that even if the note is not required, it's important for the public that it be added.

Jennifer Durrett, Controller, made comments about the upcoming GASB requirement for the Other Post Employment Benefits (OPEB) liability of over \$100 million to be added to the face of the statements in future years. She also stated that Buncombe County's OPEB liability is 18.3% funded, which puts the county ahead of most of its peers in the state.

A discussion of the negative net position for Governmental Activities in Exhibit 1 followed. The negative position is due to the requirement that the County report debt incurred for school capital spending in its statements, but the schools report the corresponding assets in theirs.

Dan Mullinix with Gould Killian made a presentation, slides attached to these minutes, regarding the fiscal year 2017 audit. He reported that the audit went smoothly and that the County received an unmodified, clean opinion on their financial statements. A discussion ensued, initiated by Chairman Larry Harris, of how the county can have no significant internal control deficiencies when the former county manager is under federal investigation. Tonya Marshall with Gould Killian explained that no system of internal control can prevent failures resulting from management override or collusion. The discussion closed with Chairman Harris and Commissioner Whitesides maintaining that when the financial statements are presented to the Board of Commissioners, there needs to be clarification on these issues both for the Board and for the public.

Mr. Mullinix continued his presentation and explained that, due to a change in reporting rules, the Medicaid program will not be reported on the Schedule of Federal and State Assistance in future. This will likely require additional programs to be tested for Single Audit purposes.

Further presentation and brief discussions of school spending and the appropriate level of fund balance followed.

Mr. Mullinix then walked through the Audit Wrap Up communication Gould Killian prepared for the Board of Commissioners which is attached to these minutes.

Chairman Harris then asked for a motion for the Audit Committee to accept the audit report and for it to be presented to the Board of Commissioners. Commissioner Whitesides moved, Commissioner Pressley seconded and the motion passed unanimously.

External Audit Subcommittee Formed

Chairman Harris introduced a suggestion for a subcommittee to be formed to allow for frank discussions with external auditors on behalf of the full committee. Ms. Ferguson moved to form such a subcommittee, Commissioner Whitesides seconded, and the motion passed unanimously. Chairman Harris asked Ms. Ferguson to chair the subcommittee, which she agreed to do, and Danny Yelton and Mike Kneppshield volunteered to serve as the remaining two members of the subcommittee.

Internal Audit Update

Terri Orange, Internal Auditor, re-introduced Kelly Houston to the committee, who is currently in payroll supervision with Buncombe County's Finance Department, but will be transitioning back into Internal Audit in the next few months. Kelly has CIA and CGAP certifications and was formerly an internal auditor with Buncombe County before moving to payroll.

Adjournment

Chairman Harris reminded the committee that the next meeting would be in January and that committee officers would be elected at that meeting. He also asked Ms. Orange to confirm whether any members would be finishing their terms at the end of 2017. Chairman Harris adjourned the meeting at 9:57.



**GOULD KILLIAN
CPA GROUP, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

BUNCOMBE COUNTY
2017 Annual Financial Report

Audit Summary

- Thank you for allowing us to serve as your auditors
- We issued unmodified (clean) opinions
- We reported no material weaknesses in internal control
- We reported no material noncompliance with laws and regulations
- Special thanks to Tim Flora, Jennifer Durrett, and the staff of the finance department, and to the DSS staff, for their hard work and cooperation in completing the audit



Audit Summary

- New in 2017
 - LEO Pension began being reported in FY17 – 6.30.17 liability of \$6.5 million (new accounting requirement)
 - Buncombe County Service Foundation is now a separate fund within the County. Previously, it was presented separately (discretely).
 - OPEB will be reported beginning in FY18



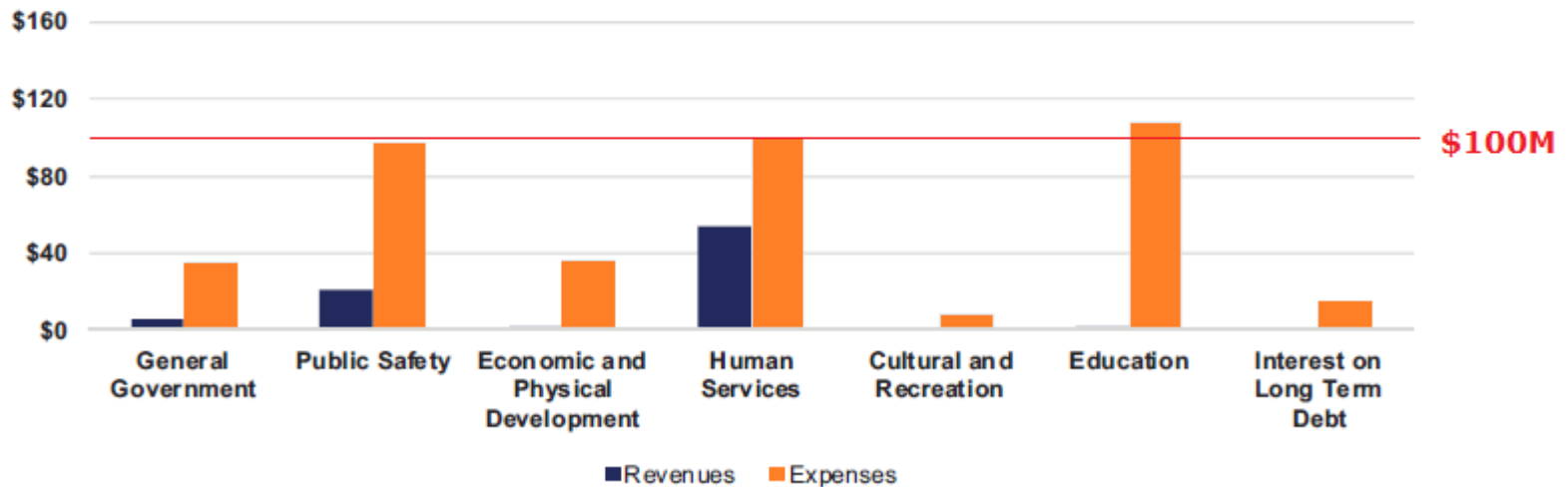
Audit Summary

- Total Federal Programs' Expenditures = \$244 Million (\$36M through County)
- Total State Programs' Expenditures = \$116 Million (\$8M through County)
- Major federal programs tested
 - Medicaid Cluster
 - Low-Income Energy Assistance Program
 - Foster Care
- Major State programs tested
 - Public School Building Capital Fund
 - One North Carolina Grant Fund
 - State/County Special Assistance



Gov't Wide Perspective

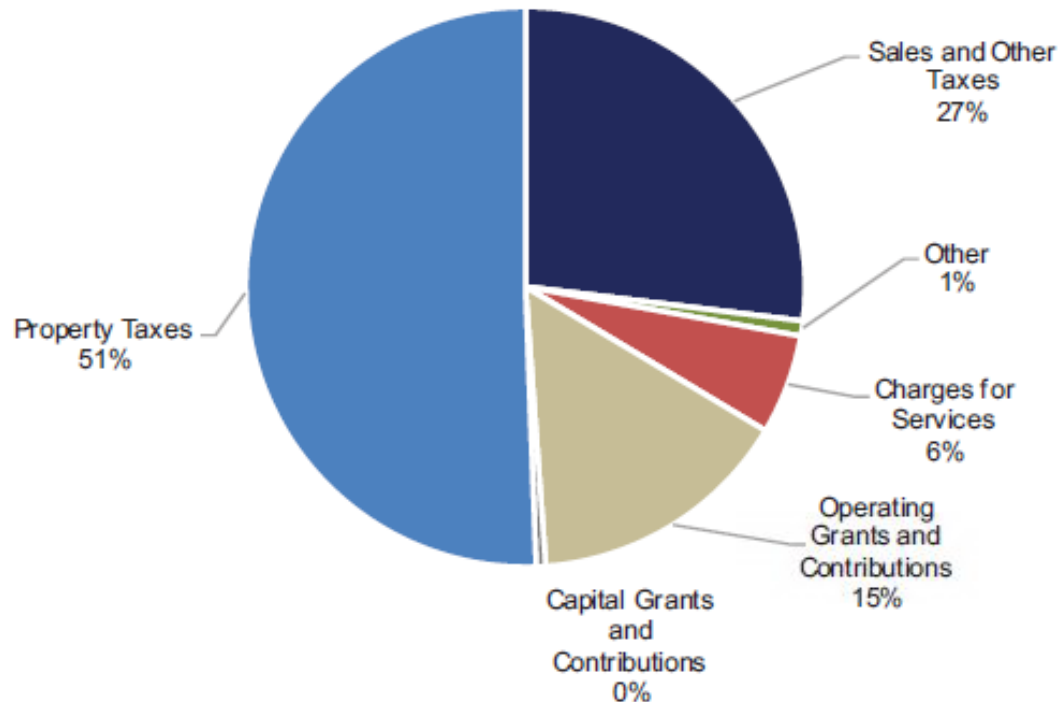
Total Expenditures of \$403 million
Expenses and Program Revenues - Governmental Activities
(in millions)



Gov't Wide Perspective

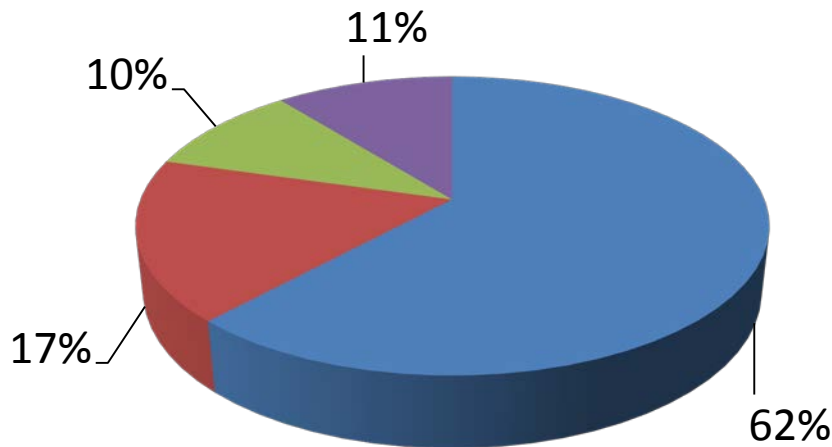
Total Revenues of \$398.2 Million

Revenues By Source
Governmental Activities



General Fund Summary

Revenues - \$297M (in millions)

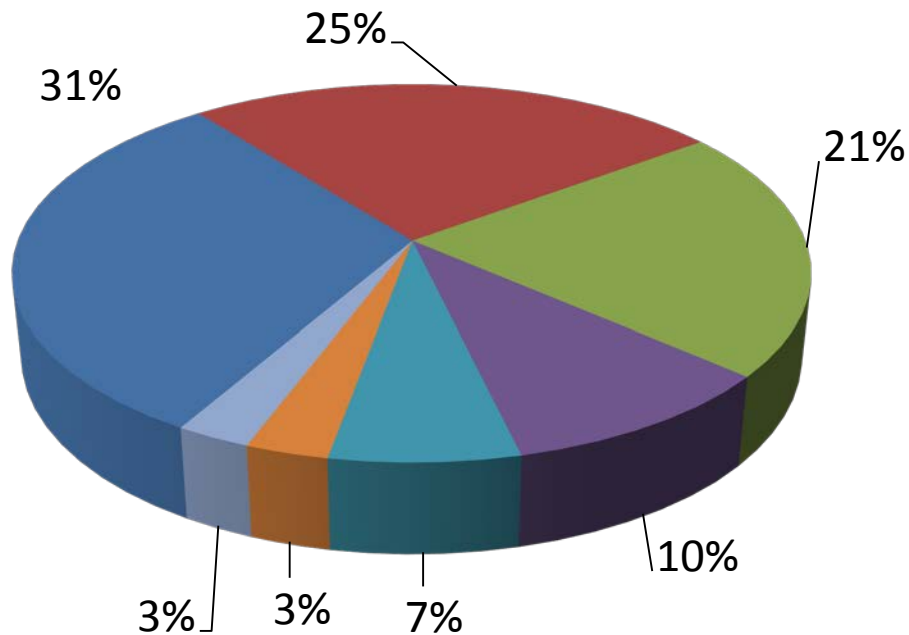


- Ad Valorem Taxes - \$183.9 M
- Intergovernmental revenues - \$52 M
- Local Option Sales Tax - \$29.1 M
- Other - \$32 M



General Fund Summary

Expenditures - \$296 Million

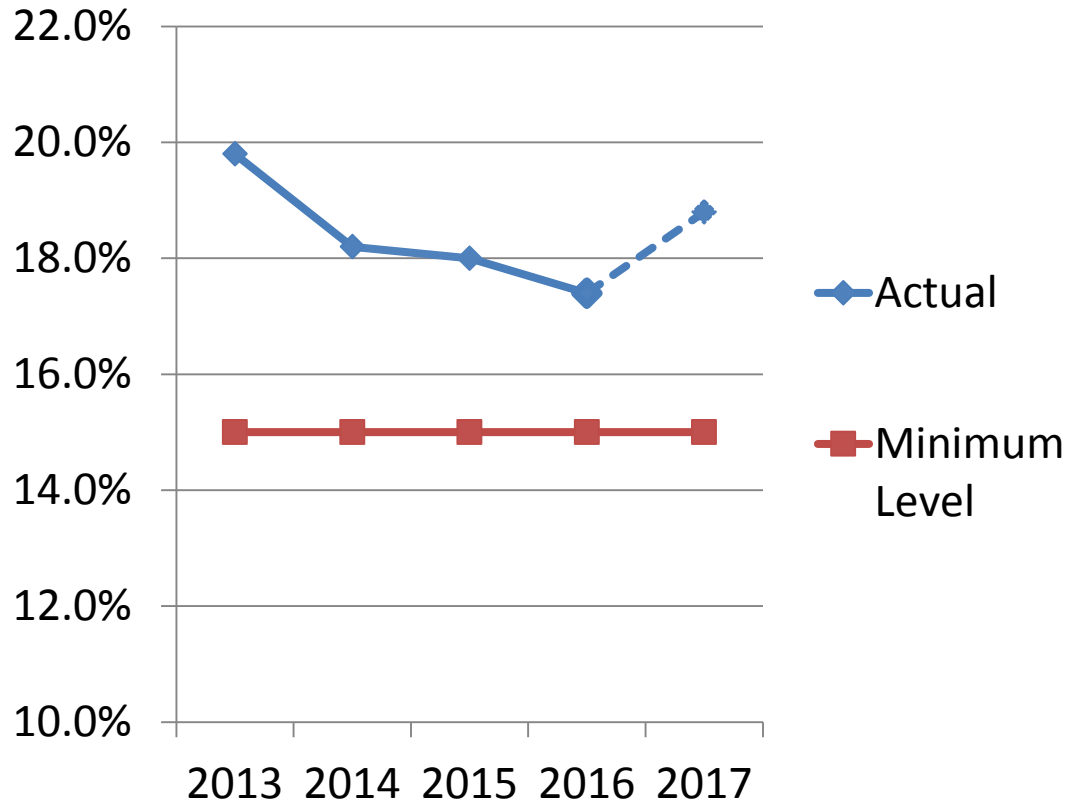


- Human services - \$92.1M
- Education - \$75.3M
- Public safety - \$63.7M
- General government - \$29.3M
- Debt service - \$19.4M
- Econ. & physical dev.t - \$8.5M
- Cultural and recreation - \$7.7M



General Fund Summary

6.30.17 Fund Balance Available as % of Expenditures



The County's policy requires a minimum allocated general fund balance of 15% or > of total general fund expenditures/transfers.

As of 6/30/17 – 18.8%
Equates to 2.2 months of GF
annual expenditures.





**GOULD KILLIAN
CPA GROUP, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

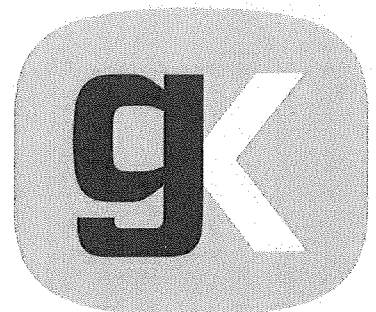
BUNCOMBE COUNTY
Communication Document

BUNCOMBE COUNTY
North Carolina

AUDIT WRAP UP

November 17, 2017

The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Governing Board and Audit Committee) and, if appropriate, management of the Government and is not intended and should not be used by anyone other than these specified parties.





**GOULD KILLIAN
CPA GROUP, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS

November 17, 2017

Board of Commissioners
Buncombe County
Asheville, North Carolina

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On February 7, 2017, we presented in the engagement letter an overview of our plan for the audit of the financial statements of Buncombe County (the County) as of and for the year ended June 30, 2017, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the County's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the County and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

Gould Killian CPA Group, P.A.

Asheville, North Carolina

Discussion Outline

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Status of Our Audit

We have completed our audit of the financial statements as of and for the year ended June 30, 2017. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- There were no changes to our planned audit strategy to perform an audit in accordance *Government Auditing Standards*.
- We have issued an unmodified opinion on the financial statements and released our report November 17, 2017.
- We have issued an unmodified opinion on compliance requirements that could have a direct and material effect on the County's major federal and state programs.
- Our responsibility for other information in documents containing the County's audited financial statements (e.g. management's discussion and analysis, budgetary comparisons, schedules of pension amounts) does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we have read the information included by the County and considered whether such information, or the manner of its presentation, was materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- All records and information requested by GK were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of Buncombe County personnel throughout the course of our work.

Results of Our Audit

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

The following summarizes the more significant required communications related to our audit concerning the County's accounting practices, policies, and estimates:

The County's significant accounting practices and policies are those included in Note 1 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 1 to the financial statements.

- A summary of recently issued accounting pronouncements is included in the Significant Accounting and Reporting Matters section of this report.
- The County implemented GASB No. 73 for the year ended June 30, 2017. The implementation of this statement required the County to begin reporting the total pension liability for the Law Enforcement Officers' Special Separation Allowance (LEOSSA). The notes to the financial statements describe the effects of implementation in greater detail.
- The County implemented GASB No. 80 for the year ended June 30, 2017. The implementation of this statement required the County to begin reporting the non-profit component unit, Buncombe County Service Foundation, Inc., as a blended component unit. As such, the component unit is presented the same as if it were a special revenue fund of the County. The notes to the financial statements describe the effects of implementation in greater detail.
- We noted no transactions entered into by the County during the fiscal year for which there is a lack of authoritative guidance or consensus.
- All significant transactions have been recognized in the financial statements in the proper period.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The County's most significant accounting estimates were:

Significant accounting estimates include:

Depreciation methods as described in the Notes to the financial statements,

Allowances for uncollectible receivables, which are based upon management's judgments and the aging of receivables that may be uncollectible,

Pension obligations, which are based on actuarial assumptions and methods, as well as the allocation of the overall plan data between the plan participants,

Other post-employment benefits obligations, which are based on actuarial assumptions and methods, and

Landfill closure and post-closure obligations.

- Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in FY 2017.

The financial statement disclosures are neutral, consistent, and clear.

Results of Our Audit

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

There were also net uncorrected misstatements (or passed adjustments) of approximately \$25,000 relating to management's estimate of incurred but not reported insurance claims. We concur with management's assessment that the effects of not recording such adjustments are, both individually and in the aggregate, immaterial to the financial statements taken as a whole, considering both qualitative and quantitative factors. None of the proposed adjustments could potentially cause future-period financial statement to be materially misstated.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Buncombe County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the County's internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in Internal Control	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.
Significant Deficiency	A deficiency or 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.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit, we noted the following:

- No material weaknesses were identified.
- We have communicated to management of the County various suggestions for improvements to internal control processes during the normal course of our audit.

Other Required Communications

Following is a summary of those required items, along with specific discussion points as they pertain to the County:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There no significant changes to the planned audit strategy to perform an audit in accordance with <i>Government Auditing Standards</i> .
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the County's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
If applicable, nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the County's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
If applicable, other matters significant to the oversight of the County's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the County's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter obtained from management.

Independence Communication

Our engagement letter to you dated February 7, 2017 describes our responsibilities in accordance with professional standards with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the County with respect to independence as agreed to by the County. Please refer to that letter for further information.

Significant Accounting & Reporting Matters

The Governmental Accounting Standards Board (GASB) has recently issued several new standards which may have a significant effect on the County's future financial reporting.

The most impactful new standards for Buncombe County are:

- GASB No. 74 "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans" and GASB No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" -- The new standards relating to Other Postemployment Benefits (OPEB) parallel the recently implemented pension standards. The new GASB statements will require a liability for OPEB obligations, known as the net OPEB liability, to be recognized on the statements on net position and an OPEB expense will be recognized in the statement of activities on the government-wide statements and enterprise fund statements. Previously this amount has only been reported in the footnotes and Required Supplementary Information. GASB No. 74, which applies to the plan, is effective for years ending June 30, 2017 and GASB No. 75, which applies to the employer, is effective for years ending June 30, 2018.
- GASB No. 80 "Blending Requirements for Certain Component Units -- An Amendment of GASB Statement No. 14" -- Not-for-profit component units meeting certain criteria are now required to be reported as blended component units, effective for years ending June 30, 2017.

Other recently issued statements are as follows:

- GASB No. 77 "Tax Abatement Disclosures" -- Certain tax abatement economic incentive arrangements will require disclosure in governments' financial statements, effective for years ending December 31, 2016.
- GASB No. 78 "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" -- This statement Amends the scope and applicability of GASB No. 68 to exclude certain pension plans that are not a state or local government plan, effective for years ending December 31, 2015.
- GASB No. 81 "Irrevocable Split-Interest Agreements" -- Improvements were made in accounting and reporting for irrevocable split-interest agreements when a government is the beneficiary of the agreement, effective for years ending December 31, 2017.
- GASB No. 82 "Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73" -- This statement provides clarification of certain issues that were raised during implementations of statements No. 67, No. 68, and No. 73, and certain provisions are effective for years ending June 30, 2017 and some will go into effect based on the pension liability's measurement date.