

Minutes of Buncombe County Audit Committee
December 3, 2019
9:00 AM

Members Present: Larry Harris, Robert Pressley, Al Whitesides, Andrew Hoffman, and Kendra Ferguson

Members Absent: Danny Yelton and Mike Knepshield

County Staff Present: Trisha Burnett, Kelly Houston, Terri Orange, Don Warn, Avril Pinder

Others Present: Chris Kessler, CLA

The Audit Committee Chairman, Larry Harris, called the meeting to order at 9:02 AM.

Review and Approval of Meeting Minutes

The October 15, 2019 meeting minutes were presented and reviewed.

Al Whitesides moved to approve the minutes as presented. Robert Pressley seconded the motion. The motion passed unanimously.

Fiscal Year 2019 Financial Audit - Presentation

Chris Kessler, the State and Local Government Principal with CLA, presented the Fiscal Year 2019 audit reports to the Audit Subcommittee. The CLA presentation is attached to the meeting minutes. A summary of his presentation follows:

- Audit Services Performed
 - Audit of Buncombe County's *Comprehensive Annual Financial Report (CAFR)*
 - Audit of Federal and State Compliance
- Reports Delivered
 - Independent Auditors' Report
 - Report on Internal Control over Financial Reporting and On Compliance And Other Matters
 - Independent Auditors' Report on Compliance for Each Major Federal and State Program, Report on Internal Control over Compliance, and Report on the Schedule of Expenditures of Federal and State Awards
 - Governance Communication
- Auditors' Required Communications
 - Unmodified (clean) Opinion on Financial Statements
 - Emphasis of Matter – Correction of Error
 - Mr. Kessler commented that the majority of the corrected misstatements were first detected by management and most were from the prior fiscal year.
 - Mr. Kessler also commented on the great efforts by the Finance Department in getting two CAFRs completed in one calendar year (fiscal years 2018 and 2019) and for the progress made on corrective action items from issues encountered during fiscal year 2018.
- Findings
 - Finding # 2019-001 was a carryover finding from the fiscal year 2018 audit in regards to adjusting journal entries.

- Mr. Kessler commented that the fiscal year 2018 audit was completed in the 10th month of fiscal year 2019, and therefore, carryover findings were anticipated due to the lack of time between then and year-end close to implement all corrective actions. He mentioned that this finding is unlikely in future years based on the corrective actions that are now in place by management. (see Corrective Action Plan section of the CAFR)
 - Chairman Harris asked where more information about the journal entries was located. Mr. Kessler advised that the Governance Letter as well as Note 11 in the CAFR had more information regarding the journal entries.
 - Chairman Harris asked which journal entries were considered material. Mr. Kessler answered that the pension spiking liability entry (government-wide statements) and the surety bond entry were both considered material.
- Management Letter
 - This letter addresses areas to improve upon.
 - Chairman Harris asked why elected or appointed officials complete timecards. Don Warn explained that while elected or appointed officials are exempt employees, the timecard is also the way that leave balances are updated if the employee is out of the office for vacation or sick time. Kendra Ferguson reminded the Committee that leave balances not being accurate was an issue during the investigation of prior County officials. Terri Orange stated that elected or appointed officials accrue leave time that is paid out according to Buncombe County policy upon their termination, which is one reason timecards should be monitored.
 - Trisha Burnett reiterated that monitoring is a management function, but that Internal Audit is assisting with this process, while maintaining safeguards to the Internal Audit function's independence.
 - Kelly Houston updated the Committee that Internal Audit is currently reviewing the expense reports and procurement card purchases of elected and appointed officials on a monthly basis. She has been working with the Information Technology Department to finalize the dashboard needed to review the timecards of elected and appointed officials, and once Information Technology has completed the dashboard, she will retroactively review those timecards starting with July 2019.
- Single Audit
 - Federal
 - No reported instances of noncompliance.
 - State
 - Finding # 2019-002 – Public School Building Capital Fund – Final Construction Reports
 - Corrective Action Plan has been implemented (see Corrective Action Plan section of the CAFR)
 - Finding # 2019-003 – Public School Building Capital Fund – Bank Reconciliations
 - Corrective Action Plan has been implemented (see Corrective Action Plan section of the CAFR)
- Year to Year Finding Summary
 - Mr. Kessler commented on the work of the Finance Department in implementing many corrective actions in a short amount of time.
 - Ms. Ferguson stated that management has made incredible progress in a short amount of time.
- Emerging Issues from CLA's Perspective
 - Information Technology and Cybersecurity
 - Ransomware is crippling governments.
 - Governments need proper infrastructure to prevent major IT incidents.
 - Phishing attacks are on the rise, particularly aimed towards employees who work in Accounts Payable and Payroll.

- Educating employees is a key component of an organization’s response to these risks.
- Written policies are recommended.
 - One example is a written policy on verifying banking changes.
- Chairman Harris asked if it was beneficial to have recurring IT audits. Avril Pinder explained that the IT Department had several external compliance audits. Mr. Kessler emphasized that employee training is a big component of managing IT risks, because one click can open the organization’s IT vulnerability.
- Mr. Kessler also noted that governments have a delicate balance with open records law and cybersecurity concerns.

Mr. Kessler concluded his presentation and asked the Committee if they had any further questions or concerns. No further questions or comments were made.

Kendra Ferguson moved to accept the audit report and to recommend the Board of Commissioners accept the audit report. Andrew Hoffman seconded the motion. The motion passed unanimously.

Member Reappointments

Chairman Harris asked Andrew Hoffman and Kendra Ferguson if they are willing and available to serve a second term on the Audit Committee. Ms. Ferguson agrees. Mr. Hoffman will be willing and available to serve for a few more meetings, but will be unable to serve a full term. Chairman Harris announced that the official action would be on hold until a future meeting.

Financial Audit Presentation to the Board of Commissioners

Trisha Burnett would like the Audit Committee’s input on items to include in her part of the presentation to the Board of Commissioners. Kendra Ferguson reiterated that the amount of progress made in such a short amount of time should be emphasized. Chairman Harris recommended that Trisha present what the Audit Committee’s role is, and that Commissioner Whitesides and Commissioner Pressley provide feedback from the Audit Committee, as they are members of the Committee.

Meeting Schedule for Calendar Year 2020

Chairman Harris communicated the proposed meeting schedule for calendar year 2020. Those dates and times are as follows:

- Tuesday, March 3, 2020 at 9:00 AM
- Tuesday, June 2, 2020 at 9:00 AM
- Tuesday, October 20, 2020 at 9:00 AM
- Tuesday, December 1, 2020 at 9:00 AM

Each of these proposed meeting dates aligns with regularly scheduled meeting dates for the Board of Commissioners. If an Audit Committee meeting is needed outside of the adopted regular schedule, it will be advertised in accordance with special meeting requirements.

Al Whitesides moved to accept the proposed meeting schedule for calendar year 2020. Robert Pressley seconded the motion. The motion passed unanimously.

Internal Audit Department Budget Request for Fiscal Year 2021

The fiscal year 2021 requested budget for the Internal Audit Department was presented to the Audit Committee and is attached to the meeting minutes. Trisha Burnett explained that in utilizing peer data, the Buncombe County Internal Audit Department is well below average in resource allocation. She summarized the key changes of the request from the current year budget. Those include:

- Request of two entry level Internal Auditor positions
- Compliance with training requirements in accordance with *Government Auditing Standards*
- Internal Audit Software for audit documentation management, electronic workflows, and data mining & analytics capabilities
- External countywide IT risk assessment

These changes will get the Buncombe County Internal Audit Department closer to, but still under, the average of peers.

Commissioner Pressley and Commissioner Whitesides stated their support for this budget request.

In accordance with the Audit Committee Charter, the Internal Audit Director's annual compensation must be reviewed annually. Trisha Burnett's salary is \$93,500.

Robert Pressley moved to accept the Internal Audit budget requests for fiscal year 2021. Al Whitesides seconded the motion. The motion passed unanimously.

Annual Review of the Audit Committee Bylaws and Audit Committee Charter

The Audit Committee Bylaws and Audit Committee Charter were distributed and reviewed. There are no recommended changes at the current time.

Internal Audit Update

Trisha Burnett updated the Audit Committee on a new project that is not on the current Audit Plan. Internal Audit will be reviewing the process of access controls. This audit will also help Internal Audit test new templates and workflows in accordance with *Government Auditing Standards*.

Public Comment

Chairman Harris noted that there were no members of the public present in the meeting room to make comment.

Adjournment

Chairman Harris adjourned the meeting at 10:09.

Buncombe County, North Carolina

Presentation of the 2019 Audit to the Audit Committee
December 3, 2019

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Create Opportunities

Presentation Agenda

- Audit Services Performed
- Required Communications
- Audit Approach Summary
- Reportable Findings
- GASB Update/Emerging Items



Audit Services Performed

Financial Statements

- Audit of the County's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2019, in accordance with *Government Audit Standards*

Federal and State Compliance

- Single Audit in accordance with Uniform Guidance and the State Single Audit Implementation Act
- Includes audit of the Schedule of Expenditures of Federal and State Awards and certification of the Data Collection Form



Reports Delivered

Independent Auditors'
Report

Report on Internal Control
Over Financial Reporting
and On Compliance And
Other Matters Based on an
Audit of Financial
Statements Performed in
Accordance with
*Government Auditing
Standards*

Independent Auditors'
Report on Compliance For
Each Major Federal and
State Program, Report on
Internal Control Over
Compliance, and Report
on the Schedule of
Expenditures of Federal
and State Awards Required
by the Uniform Guidance
and State Single Audit
Implementation Act
(Single Audit Report)

Governance
Communication



Auditor's Required Communications

- Auditors' Opinion on Financial Statements
 - Unmodified (clean) opinion
 - Emphasis of Matter Paragraph
 - ◇ Correction of Error
 - ◇ Detailed in Note 10 of the CAFR
- Scope and timing of audit proceeded as planned
- Significant accounting policies
 - In accordance with generally accepted accounting principles and consistent with industry practices and standards
 - Detailed in Note 1
- Significant estimates within the financial statements
 - Landfill post-closure liability
 - Pension liability
 - Claims liability
 - OPEB liability



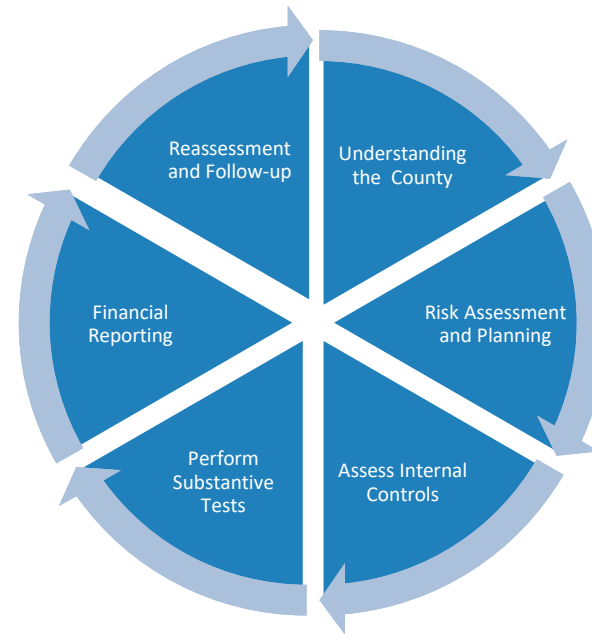
Auditor's Required Communications

- Significant corrected misstatements
 - Capital asset activity
 - Surety bond liability
 - Retirement incentive liability
 - Economic incentive liability
- Uncorrected misstatements
 - Capital asset activity related to 2018
 - Investment income related to 2020
 - Accrued payroll related to 2020
- No difficulties encountered in performing the audit
- No disagreements with management
- Management was very cooperative and professional during the audit process



Audit Approach Summary

- We have assessed the following areas to be of higher audit risk:
 - Overall internal control environment and management override of controls
 - Payables and cutoff of accruals
 - Procurement, contracts, and purchasing cards
 - Information technology control environment
 - Revenue recognition - cutoff, classification, collectability
 - Grant compliance
- Areas where findings were noted in the 2018 audit were assessed at higher risk until the findings are resolved



Audit Findings

- A *material weakness* is defined as a deficiency, or a 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 in a timely basis.
- A *significant deficiency* is a deficiency or a 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.



Audit Findings

- Material Weakness
 - 2019-001 - Financial Reporting – Audit Adjustments



Additional Matters

- A management letter was also issued which recommended best practices be implemented over:
 - Sales taxes receivable
 - Procurement card transaction limits
 - Expense reimbursement and timecard review for Board-appointed officials



Single Audit Results

- Major Federal Programs Tested
 - 93.563 Child Support Enforcement
 - 93.658 Foster Care – Title IV-E
 - 93.778 Medicaid Cluster
- Major State Programs Tested
 - Public School Building Capital Fund – Lottery Proceeds
 - Foster Care – Title IV-E



COMPLIANCE



Single Audit Results

- Single Audit Reports Issued
 - Independent Auditors’ Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance, In Accordance With OMB Uniform Guidance and the State Single Audit Implementation Act
 - ◇ No reported items of noncompliance

 - Independent Auditors’ Report on Compliance for Each Major State Program and Report on Internal Control Over Compliance, In Accordance With OMB Uniform Guidance and the State Single Audit Implementation Act
 - ◇ Two significant deficiencies and instances of noncompliance noted
 - Applicable to the Public School Building Capital Fund program
 - 2019-002 – Reporting – Timely Filing of Compliance Reports
 - 2019-003 – Cash Management – Timely Reconciliation of Bank Account



Year to Year Finding Summary





CLAAconnect.com

Questions?

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Principal
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Buncombe County Internal Audit

FY 2021 Budget Request

Highlights

BACKGROUND: The Buncombe County Board of Commissioners have stated a goal of gaining the trust of residents in the wake of the County Manager scandal. In FY 2018, the Internal Audit Department was established as an independent assurance department with a staff of two. In order to right-size the department to function effectively, we present the attached budget request.

BUDGET INCREASE HIGHLIGHTS:

- Increase staff from 2 positions to 4 positions - 2 new positions would be entry level Internal Auditors
- Training & Travel costs are aligned to meet education requirements established by *Government Auditing Standards* (AKA Yellow Book), which was adopted by the Audit Committee in June 2018
- Software request of \$85,000 represents a \$55,000 annual cost and a \$30,000 one-time cost
- Contracted Services request includes an estimated \$30,000 for an independent IT risk assessment by the National Guard
- Internal Audit does not determine several items: Health insurance costs, unemployment, workers compensation, LGERS Stabilization, and Insurance & Bonds. The amount used here is the current fiscal year amount and is subject to change as dictated by County Management.
- 2 new Spend Categories are requested:
 - Local Mileage: Buncombe County employees receive reimbursement at the IRS mileage rate for local mileage driving to and from various County locations. Internal Audit has never had a budget for this.
 - Education & Program Materials: Budget for COSO training needs and Internal Audit Awareness

BUDGET REQUEST BENCHMARKING

The Association of Local Government Auditors (ALGA) represents over 300 Internal Audit organizations and over 1,700 auditors. ALGA published a benchmarking report in 2018 that was used in compilation of this budget request.

ALGA BENCHMARKING HIGHLIGHTS:

- Internal Audit Department Staff Size
 - 19% 1-2 Staff
 - 33% 3-5 Staff
 - 31% 6-10 Staff
 - 8% 11-15 Staff
 - 7% 16+ Staff
- In an Internal Audit Department with 3-5 Staff:
 - The average Internal Audit budget is 0.18% of the organization's budget
 - The average Internal Audit budget is \$185,386 per Auditor FTE

	FY 2021 (Requested)	FY 2020 (Current)
Salary	\$ 306,855	\$ 176,730
Benefits	\$ 149,178	\$ 81,160
Unemployment, Workers Comp, LGERS	\$ 1,270	\$ 1,270
Training	\$ 11,980	\$ 4,500
Travel	\$ 21,100	\$ 3,345
Office Supplies	\$ 3,500	\$ 1,500
Dues & Subscriptions	\$ 3,200	\$ 829
Contracted Services	\$ 50,000	\$ 20,000
Non Discretionary Insurance & Bonds	\$ 610	\$ 610
Non Discretionary Telephone	\$ 2,880	\$ 1,400
Local Mileage	\$ 1,000	\$ -
Education & Program Materials	\$ 1,500	\$ -
Software	\$ 85,000	\$ -
Total IA Budget	\$ 638,074	\$ 291,344
Total Organization Budget FY 2020	\$454,479,768	\$454,479,768

	FY 2021 (Requested)	FY 2020 (Current)		FY 2021 (Requested)	FY 2020 (Current)
% IA Budget to Org Budget	0.1404%	0.0641%	Budget per FTE	\$ 159,518.45	\$ 145,672.00
ALGA Average for IA Shops with staff of 3-5	0.1800%	0.1800%	ALGA Average for IA Shops with staff of 3-5	\$ 185,386.00	\$ 185,386.00
Buncombe As Compared to ALGA Average	-0.0396%	-0.1159%	Buncombe As Compared to ALGA Average	\$ (25,867.56)	\$ (39,714.00)