



**December 13, 2011
Audit Oversight Committee Minutes
Durham County**

I. Call to order

The meeting was called to order at 3:30 p.m. in the County Manager's Conference Room; 200 East Main Street, 2nd Floor, Durham, NC 27701.

II. Members

Present: Manuel Rojas, Chair; William Pierce, Vice Chair; Commissioner Reckhow; Fay Culpepper, Secretary; Michael M. Ruffin, County Manager

Absent: Commissioner Page (Excused)

III. Others Attending

J. Scott Duda, CPA and Partner with Cherry, Bekaert & Holland (CBH); April Adams, Audit Senior Manager CBH; Melissa McLamb, Audit Senior CBH; George Quick, Finance Director; Richard Edwards, Internal Audit Director; Jennifer Lischer, Internal Auditor

IV. Business

- A. **Prior Meeting Minutes.** Ms. Culpepper moved and Mr. Pierce seconded the motion to approve minutes as read. The voice vote carried and the minutes were approved.
- B. **Presentation by Cherry, Bekaert and Holland representatives regarding Independent Auditors' Reports & 2011 Comprehensive Annual Financial Report (CAFR)**

J. Scott Duda provided an overview of the following reports:

1. *"The Independent Auditor's Report" presented within the Financial Section of the 2011 CAFR.*
2. *"Independent Auditors' Report on the Revenue Bond Covenant Compliance" presented within the Compliance Section of the 2011 CAFR.*
3. *"Independent Auditors' Report on Internal Controls over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards."*
4. *"Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act."*
5. *"Independent Auditors' Report on Compliance with Requirements Applicable to Each Major State Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act."*

Mr. Duda reported no internal control deficiencies were noted during the audit. Compliance requirements for federal and state programs were found to be met in all material respects. Instances of noncompliance, however, were identified as part of the audit. The findings included: DSS employees not always tracking general and administrative time (finding 11-1) and an unallowable cost included in reimbursable cost during testing for Part II of DSS Crosscutting (finding 11-2). Mr. Pierce commented that the finding related to keeping track of general and administrative time repeated from last year. Mr. Duda agreed. He reported no great concern at this time regarding the finding, but said it would be a concern if the finding were to repeat next year.

Additional Comments by Mr. Duda Regarding External Audit:

- New standards have been enacted which may impact financial reporting in the future; details of the standards are contained in a letter to George Quick, Finance Director.
- Audits of individual volunteer fire departments are ongoing and one department's audit has been completed.
- Durham County's unassigned fund balance is very healthy.
- In the first year of GASB 54 implementation Durham County met the 10/31/11 deadline.

Mr. Rojas inquired as to whether the fire department audits would be made available to the Committee. Mr. Edwards will make them available to the Committee.

C. Discussion of AOC/Management Responsibility led by County Manager

Mr. Ruffin summarized the progress of the Internal Audit Department since 2004 pointing out that a charter and bylaws have been adopted by the BOCC for the internal audit department and that he has hired a Director of Internal Audit. Recently Jennifer Lischer joined the Internal Audit department, and the plan is to fund another staff member in the 2013 budget. Mr. Ruffin noted that the AOC is critical to the audit function and welcomed the critical and tough questions surfaced by the members some of which had resulted in "healthy tension." He encouraged AOC members to continue to do so. Mr. Ruffin said he believes in transparency and when the new Durham County website is complete, audit reports will be posted on the site.

Mr. Ruffin pointed out that the Internal Auditor works for him. He sees the position as one that assists management and The BOCC by providing it with information needed to make decisions. As such there are times his or the Board's need will require deviating from the Annual Audit Plan.

Mr. Ruffin said management and the Committee have worked well together and progress is being made in both audit and oversight and he will support the continuation of growth and progress.

D. Overview of Peer Review Process and Report (Richard Edwards)

Mr. Edwards reported that Durham County's Audit Department had undergone a GAGAS Peer Review in November, 2011. Peer reviews, required every three years, look for

adherence to a program of standards for quality controls, including independence and competence. The results of the review were that Durham County's audit function is meeting the standards.

One standard was not complied with for several months over the three-year review period. CPE training fell behind at a point during the review period although it had been caught up. The recommendation was to put in place a system of review to assure CPE training complies with standards. One suggestion was made to include "audit risk" assessment results in the individual audit steps or plans to assure reviewers that the auditor considered the standard for audit risk. The Peer Review report will be attached to the approved minutes for submission to the BOCC clerk to comply with the standard that peer results be available to the public for review.

E. Review of Recommendation Implementation Status

In follow up to the recommendation that the Sheriff hire an individual qualified to manage financial internal controls, Mr. Ruffin reported that he spoke with Deputy Andrews, the incoming Sheriff, who has promised to fill such a position. Mr. Ruffin said he will keep in contact with Sheriff Andrews regarding the position.

In follow up to the A/P file purging, the process of purging has begun. Mr. Quick will be requested to report on the status of the process at the next meeting.

In follow up to the recommendation for the separation of the purchasing and receiving functions, Mr. Ruffin will identify departments where the separation is necessary with a positive cost benefit outcome.

Changes recommended for Durham Center/Mental Health have been implemented, and will be deleted from the status of audit recommendations report.

F. Next Meeting Date: March 13th, 2012 at 3:30

V. Adjournment

There being no further business, the meeting was adjourned at approximately 5:15 p.m.