



**March 8, 2022**

**Durham County Audit Oversight Committee Minutes**

**I. Call to Order**

The meeting was called to order at 3:33 PM virtually on Microsoft Teams by Dr. Nicole McCoy. The meeting was recorded and transcribed.

**II. Members**

Present: Dr. Nicole McCoy, Chair; Mr. Arnold Gordon, Vice Chair; Mr. Manuel Rojas, Committee Member; Claudia Hager, Interim Manager; Wendy Jacobs, Commissioner; Brenda Howerton, Commissioner

Presenter: Darlana Moore, Internal Audit Director

Others Present: Mischa Preston, Internal Auditor; Jerry Roy, Internal Auditor; Willie Darby, Senior Assistant County Attorney; Janelle Owens, Safety and Risk Manager; Tammy Baggett, Library Director; Kelly Inman, Chief Operations Officer - DSS; John Kenion, Administrative Officer - DSS; Christie McMillan, Administrative Officer - DSS; Jennifer Matteo, Accounts Receivable Supervisor - OOS; Dwane Brinson, Tax Administrator; Crystally Wright, Deputy Chief Finance Officer, Dr. Kimberly Sowell, County Manager

**III. Business**

**A. Discussion and Approval of Prior Minutes**

Dr. McCoy asked for a motion for the approval of the December 14, 2021, meeting minutes. Mr. Rojas made the motion and Mr. Gordon seconded the motion. The December 14, 2021, meeting minutes were unanimously approved.

Dr. McCoy asked for a motion for the approval of the February 22, 2022, special session minutes. Mr. Gordon made the motion and Mr. Rojas seconded the motion. The December 14, 2021, meeting minutes were unanimously approved.

**B. County Attorney Report on Legal and Regulatory Matters**

Mr. Darby then began his report on activities in the County attorney's office. He stated that there are currently fifteen pending cases – some very active and some not so active. Two

cases pending against the County attorney's office, two against the department of social services, four against the sheriff's department, one against the sanitation and erosion control department, one against the tax office, one against the planning office, and two against board of adjustment. One of the major open cases relates to opioid litigation which is a nation-wide case. Part of this case has been somewhat settled for \$26 billion. They are entering into the final phases of that case and hopefully will find out more about that tomorrow. Mr. Darby added that there is one case pending that has not been served. Until it has been dismissed by the courts, it will be carried on the open case file. In addition, there are two cases governed by outside counsel. He summarized that those fifteen cases are the ones currently pending.

Dr. McCoy questioned how much of the \$26 billion opioid case money would be related to Durham County. Mr. Darby said that there is a formula they are using, but that he has not grasped the formula and it is hard to say how much money will be coming in. He said the main concern is how they will use and spend it, and what it can be used for. He added again that hopefully more information will be coming tomorrow.

Mr. Gordon asked if these funds were coming down through the state, to which Mr. Darby said yes. Mr. Gordon followed up asking if the state had given any indication of what the County or City's share would be. Mr. Darby stated that they have a formula, but he has not personally applied the formula to the money that may be coming in. Mr. Gordon thanked Mr. Darby.

Mr. Rojas asked if Mr. Darby could provide any dollar amount of liability involved regarding large magnitude cases. Mr. Darby said that he wished he could, but that he would know more about it tomorrow or in the weeks to come, but it is based on a formula, and he is not sure what it will equate to. He added that he expects it to be a significant settlement. He added that there are two parts to the opioid settlement. The first part is against the manufacturers and the second part against the retailers (Bellwether case). Durham County is one of the lead counties in that litigation and it is just getting started. He is told that the bulk of the monies will be coming from that case as opposed to the one against the distributors. Dr. McCoy followed up asking if any of the other pending cases are large liability concerns. Mr. Darby responded that he did not see anything that would carry over their governmental immunity which is \$1 million. Mr. Gordon asked Mr. Darby if we are self-insurers, which Mr. Darby confirmed. Mr. Darby added that the Risk Manager was on the call, and she may be able to add or disagree. Ms. Owens responded that she did not see any cases over \$1 million at the moment. Mr. Rojas asked what happens if a case goes over that amount. Ms. Owens responded that there are additional insurances that the County carries depending on the type of case. The insurance companies would reimburse for costs after the \$1 million. Mr. Rojas thanked Ms. Owens. Commissioner Howerton added that she did not have any questions, but that the attorney has been in touch with the board quite a bit regarding the opioid settlement and that they are anxiously awaiting to see how much money Durham County will get to use toward citizens. She said the board is knowledgeable about that case, but the rest of the cases they don't know a whole lot about. She added that if the attorney needs for the board to know, he will pull them in, otherwise he would just let them know that they are happening. Mr. Gordon asked if we know how much the state is going to receive, since Durham County is approximately 6% of the state's population and probably a higher percentage of the opioid problem, though he added that he could be wrong about that. Mr. Darby responded that he is not sure how much the state is going to get. He added that he would ask the attorneys and look at the records again to be able to provide the AOC with that information later if that is okay. Mr. Gordon thanked him.

Commissioner Howerton added that the NC Association of Counties is going to be working with all counties around these dollars. They have established a 501(c)(3) to help with these dollars and making sure that the dollars are spent as they are supposed to be. Mr. Gordon asked if that would be mostly around treatment; Commissioner Howerton confirmed. Dr. McCoy asked if Commissioner Jacobs had any questions, and Commissioner Jacobs indicated no.

Ms. Moore stated that Ms. Owens may want to give a report concerning Risk Management since that is her area.

Ms. Owens stated that there are a couple of things that are happening in Risk Management. They are currently in the process of insurance renewals and expect a quote within the next month. She pointed out that last year the County experienced a drastic increase in the cost of premiums, and they are hoping that costs level out this year to remain the same. They have also completed their financial report and have successfully decreased their liability by \$1 million since last year by settling workers compensation legacy claims. She stated that she believes there is one more outstanding workers comp claim which will hopefully be closed by the end of this year. Commissioner Jacobs commended Ms. Owens and her staff for reducing our liability by that much. She then asked Ms. Owens how often the County completely rebids our health insurance plans and benefits for better deals. Ms. Owens responded that health insurance falls under HR. Interim Manager Hager added that she can speak to that, and Ms. Owens could speak to the process with the other insurances. IM Hager stated that the County typically bids out health insurance benefits every three or four years depending upon the market. She mentioned that the County previously moved from BlueCross BlueShield to Aetna to Cigna. The move from BCBS was quite controversial because Durham is their home. She added that they do rigorous reviews each year, although they may not be in the bid process. Their brokers know what the market looks like, and it is an aggressive review process annually, but it is bid out about every three years. She added that they are very aggressive with that and are always threatening to do so if needed. She stated that Ms. Owens has done a phenomenal job in helping with insurances and coverages in the other areas that she can explain further.

Ms. Owens said that for other insurance coverages, they rebid every year looking for better rates. Because this is rebid each year, there is a teetering factor due to market changes. For example, last year the law enforcement premium went up drastically. In addition, cyber has been increasing over the past couple years because of the number of cyber-attacks that are taking place on public entities. They do check each year before going into contract, but sometimes the market is just harder on other levels of security and other lines of insurance than others. Commissioner Jacobs thanked them both.

Dr. McCoy asked if there were any other questions for Risk Management or Counselor Darby. Being none, Dr. McCoy thanked them for attending the meeting, and dismissed Mr. Darby and Ms. Owens.

### **C. Cash Audit Follow-up**

Dr. McCoy proceeded to agenda item number three, Cash Audit Follow-up. At this point Willie Darby, Senior Assistant County Attorney and Janelle Owens, Safety and Risk Manager left the meeting. Darlana introduced Jerry Roy, Internal Auditor as the auditor that conducted the follow up and allowed him to present the findings of the follow up.

Mr. Roy began by informing the Committee the objective of the follow-up was to determine what actions management had taken towards remedying the findings in the County Cash Audit Report issued February 10, 2020. He summarized the results of the follow-up stating that of the 22 findings in the initial audit report 14 had been remedied and for the other 8 findings, management had taken steps toward remedying the finding, but there were still more steps that had to be taken before the finding could be considered remedied. He noted that the common theme for those findings that are still notated as “in progress” is that management has not formally approved updated policies and procedures.

Mr. Gordon clarified that none of the findings are “not implemented” and Mr. Roy confirmed that that is the case. There were at least some steps taken toward remedying each of the findings.

Mr. Roy continued with the first of the “in progress” findings, Friends of the Library (FOTL). He stated that the initial audit found that there was no written contract between FOTL and Durham County Library; that the library was using its own receipt books to record sales collected on behalf of FOTL; and that staff were performing duties for FOTL on County time. As a result, Internal Audit recommended that the Durham County libraries halt all operations with FOTL until a written contract is in place and a set of proper policies and procedures are established. The Library did halt operations with FOTL. There is an MOU in draft. It’s currently being reviewed by an attorney, and the Library Director expects the MOU to be finalized by June 30, 2022.

Mr. Roy continued to the next finding, Surveillance Cameras. He noted the audit recommendation from the initial audit report was that the department install additional cameras at each location, that they be pointed at the registers and entrances, and that the footage is backed up. Bragtown, North Regional and South Regional have new cameras already installed. Installation at East Regional and Southwest Regional is underway. Stanford L. Warren was scheduled to have additional cameras installed, but that project is on hold until completion of the Water Intrusion Project. Main Library is slated to have surveillance cameras in the FY 23 budget.

Mr. Rojas inquired who was overseeing the surveillance camera installation. Ms. Moore answered that it was Ed Miller with General Services. He then asked what was being backed up. Mr. Roy answered that it is the video footage that is being backed up and this footage is stored, on average, for 200 days.

Ms. Howerton asked for clarification on why there is a lack of policy around the cash flow. Ms. Moore stated that question would be better answered by the department. Ms. Baggett then answered that there were policies in place. They were just written for each Library location rather than one set of policies to govern all libraries. Now the policies are written as a uniform process as opposed to by individual location.

Mr. Roy recapped the Library findings by stating that the Library had 11 findings in the initial audit report and of those nine have been remedied and two remain in progress.

There being no more questions relating to the Library portion, Mr. Roy continued to the first DSS finding, Program Integrity, Child Support, and Emergency Assistance. He mentioned that the main issue with all three of those programs was an improper segregation of duties. This stemmed from the fact that DSS allowed the same individual to both collect funds and deposit funds. As a result, Internal Audit recommended that DSS update their

cash log to record who is collecting funds and who is depositing those funds and ensure that they are two different people. Internal Audit also recommended that they update their policies and procedures to state that it requires two different people to collect and deposit funds. Mr. Roy then stated that DSS had taken action. They did update their cash log, the collection and depositing duties are segregated, and they have drafted policies and procedures. However, they do not have those procedures formally approved, and for that the status of the corrective action related to this finding is “partially implemented.”

Mr. Rojas asked about the reconciliation process. Mr. Roy stated that DSS does reconcile between the Cash Log and the manual receipts. Mr. Rojas followed up by asking if that reconciliation was being done by someone who had nothing to do with the collection and depositing process. Ms. Moore stated that there was proper segregation of duties between receipting, recording, reconciling, and depositing. Mr. Gordon commented that it sounds like there is a built-in reconciliation between what is received and what is deposited. Ms. Moore affirmed that was the case.

Mr. Gordon asked what we are being paid for from Program Integrity, Child Support, and Emergency Assistance. Ms. Moore answered individuals who commit fraud are able to pay back the County through Program Integrity. Child Support, you pay a deposit to start your cases.

Dr. McCoy asked if we know the cash volume on a daily basis for this process. Ms. Moore answered that we don't, but she can get that information.

Mr. Rojas asked if there were funds other than cash that are collected. Ms. Inman answered that money orders are collected for Child Support, but no debit card or credit card transactions take place. Mr. Rojas asked about the typical dollar amount of money orders. Ms. Inman replied that for Child Support the fees are either \$10 or \$25. For Program integrity it can range from \$10 - \$75 depending on the type of fee and over what period of time it's being paid out.

Ms. Moore asked Ms. Inman to go into a little more detail about Program Integrity. Ms. Inman stated that it can be fraud, but it's also possible that it's returning an overpayment due to agency error.

There being no further questions, Mr. Roy continued to the next DSS finding, Manual Receipt Books. He mentioned that for this finding Internal Audit recommended DSS update policies and procedures to reflect proper safeguarding, and periodic auditing of the manual receipt books. These policies and procedures are in draft. They have not been formally approved. Management anticipates that this approval will occur by June 30, 2022. With regards to the manual receipt books being audited, there is no documentation that these audits are taking place.

Mr. Roy continued to the next DSS finding, Cards and Voucher Stock. He stated that this finding was very similar to the previous finding in that the recommendation was that DSS implement a periodic audit process for food cards, bus passes, and clothing vouchers. The policies and procedures for this are in draft. They have not been formally approved. Management expects this approval to occur by June 30, 2022. There is no evidence the inventory for these items is being periodically audited by management.

Mr. Rojas asked for an explanation on what manual receipt books are. Mr. Roy answered that they are hard copy receipts, recorded in triplicate as carbon copies. One receipt is handed to the customer, one retained on file by DSS, and the third is kept in the receipt book. Mr. Rojas followed up by asking if this was related to the previous finding regarding cash intake. Mr. Roy said it was. Mr. Rojas again followed up by asking DSS to answer what these receipt books are reconciled to. John Kenion answered that the person collecting funds will write the receipt up, and a second person from the unit will verify that collection took place. A copy of that receipt is given to the client, a copy is mailed to the Program Integrity unit, and the third copy stays in the receipt book. At the end of the month, they perform a reconciliation to ensure that all of the receipts have been accounted for. Mr. Rojas thanked Mr. Kenion for the explanation.

There being no more comments or questions Mr. Roy continued with the next DSS finding, Deposit Verification. He stated that this finding stems from the fact that DSS used to allow the same person to collect and deposit funds. In order to rectify this, Internal Audit recommended that DSS update their cash logs to contain the initials of the person collecting funds and the initials of the person depositing funds. And that they update their policies and procedures to state that those processes must be performed by different staff.

Mr. Rojas asked how much was collected on an average daily basis. Mr. Kenion estimated the average day could see between \$0 - \$200, but he didn't have an exact figure. He said he could get some definite numbers to either Jerry or Darlana. Mr. Rojas thanked Mr. Kenion for the answer.

Mr. Roy then continued to the next DSS finding, Child Support Fees. He stated that the issue with Child Support fees in the initial audit was that since Child Support fees are paid by money order, DSS would hold those money orders for extended periods of time, sometimes in excess of 30 days. Internal audit recommended that DSS conduct deposits of Child Support fees more timely and update their policies and procedures to state that timely deposits of Child Support fees are required. DSS has changed their depositing procedure to be that deposits are made weekly, or when cash on hand exceeds \$100. Policies and procedures are drafted, but not formally approved. This approval is expected to occur by June 30, 2022.

Mr. Rojas asked how deposits are being made. John Kenion answered that deposits are made either over the counter or drive thru. Ms. Moore added that before leaving the bank they receive a bank receipt that reconciles to the deposit records.

Mr. Gordon stated that Durham County must have a lot of money going through the banks and he was curious if we were accruing interest on those accounts. He also asked if banks to compete for our business by offering improvements in service or interest? He gave the example of the IRS using local banks around their service centers and banks actually bid for their business. He said he was raising the issue to put it on the radar as something to look into in the future. And that we could look at the County's policy regarding procurement of banking service.

Mr. Rojas agreed that procurement of banking service would be something they could look into in the future. He then asked how deposits are made and about the risk of exposure of funds during deposits. Mr. Kenion stated that they have a primary person who makes deposits if she is in the office. If she is not in the office, there is a secondary person able to make deposits who is not part of the collection of funds process. Mr. Rojas followed up by

asking if the bank was within walking distance. Mr. Kenion stated it was not. Deposits are driven to the bank. Mr. Gordon asked what banks are being used. Mr. Kenion answered that most of DSS's business is conducted through Wells-Fargo. Christie McMillan picked up there and added that DSS also used M&F Bank and Sun Trust, which is now Truist. Dr. McCoy asked if they were carrying the funds in a locked bag, or just carrying the funds openly when in transit. Ms. McMillan answered that they have the locked bags and also bag that can be worn over the shoulder. Dr. McCoy asked if that bag also locked. Ms. McMillan said it did. Mr. Gordon asked how Wells-Fargo was chosen. Whether the decision was based on services they can offer us or based merely on convenience to their location. Ms. McMillan stated that those accounts were set up by County Finance for DSS. Mr. Gordon thanked Ms. McMillan and mentioned it could be something that is looked into in the future.

Dr. McCoy asked if there were any other questions or comments. Commissioner Jacobs said Claudia might have a comment since she oversees those departments. IM Hager said Susan Tezai, CFO, could give a better response to the question of how we chose our banks.

Mr. Roy continued that the next DSS finding was Written Policies and Procedures. This finding was because there were certain topics that were not covered in DSS's policy manual at all. The recommendation was that they add those areas to their updated policies and procedures. These policies and procedures have been drafted, but not formally approved. This approval is expected to happen by June 30, 2022. The second part of the finding is that once the policies and procedure are formally approved, relevant staff should undergo training on those policies and procedures. They expect that to occur at the Supervisor's meeting following June 30, 2022, which is August 2022 for DSS.

Mr. Roy summarized DSS's portion of the follow up by stating that DSS had seven findings. For one of those findings all of the corrective action had been taken, the other six are still in progress mainly due to not having the policies and procedures formally approved.

There were no more questions regarding DSS's portion of the Cash Audit Follow-up. Mr. Roy then noted that there was one more department covered in the Follow-up, the Sheriff's Office, and they implemented all of the necessary corrective actions from the initial audit report. Ms. Moore congratulated the Sheriff's department.

#### **D. Status of Ongoing Work – Internal Audit**

Dr. McCoy then stated that that closes out agenda item three – cash audit follow-up. She thanked Mr. Roy and moved to the status of the ongoing work for internal audit, and asked Ms. Moore for an update on current status. Ms. Moore invited department representatives to leave the meeting.

Ms. Moore asked Ms. Preston to begin the slideshow presentation. Ms. Moore began her update with the current org chart for the department. The current org chart includes the Director of Internal Audit (Darlana Moore), a Senior Internal Auditor (Patricia Burnside Jones), and three Internal Auditors (Jerry Roy, Mischa Preston, and Vacant). She thanked IM Hager, who just yesterday approved three new positions. In addition to the previous vacant internal auditor position, we now have one investigator, an additional senior internal auditor, and an additional internal auditor position. Dr. McCoy asked if Ms. Burnside Jones was temporary or permanent. Ms. Moore clarified that the senior internal auditor position

held by Ms. Burnside Jones is a permanent position, but Ms. Burnside Jones will be retiring in June at which time the position will be recruited for. IM Hager added that in the commissioner's November meeting, it was asked that they move forward with positions and there was support for that. They are realigning some positions to make this happen, as they are unfortunately at a high vacancy rate. They will reestablish those for other departments. She thanked the departments who helped to make this happen. Dr. McCoy followed up to ask if this new org chart is all permanent positions, specifically the senior internal auditor/investigator position. Ms. Moore responded that all positions are permanent. Mr. Gordon said that this is great, and vast improvement. Ms. Moore agreed stating she is very excited, especially with the additional amount of ground that can be covered with all the covid money coming in. Ms. Moore thanked IM Hager again, who responded saying that internal audit is supposed to help us and that we are in it together to protect the brand. Mr. Rojas asked if there are currently four open positions, with a fifth opening after Ms. Burnside Jones retires. Ms. Moore said this is correct. Mr. Rojas asked if there are any prospects currently, and Ms. Moore responded that the department works with Robert Half and Ledgent and they are currently searching. She added that she is hopeful the positions will be filled soon. However, auditors are in high demand right now and are very competitive with pay. Ms. Moore has already let the incoming manager and IM Hager know how competitive salaries are. Dr. McCoy asked Mr. Roy and Ms. Preston if they had any colleagues they would like to recommend. Ms. Preston responded that most of her colleagues are back in West Virginia, and she has tried to convince some to move, but no luck so far.

Ms. Moore then moved on to the next slide, the audit plan tracker. The accounts payable audit was postponed as discussed in the December meeting. It will be added back to the next audit plan, along with the payroll audit. The IS&T Risk Assessment audits for the Sheriff's office and Durham County have been completed. The peer review is still to be determined; because of covid, everything is still backed up and we are still waiting on a date for them to come in. CIP & LIEAP has been completed. Medicaid administrative claims planning will begin this week. The general services gas cards audit has been completed and is awaiting management responses to finalize the report. Special investigations will be discussed later, there are still several. Ms. Moore reminded the group that investigations do not take precedence over audits unless the BOCC specifically requests us to do so. She added that there are a couple that are ready to be released, but it will be discussed later. She continued, both register of deeds and cash audit follow-ups have been completed. The audit plan looks very good, and she expects it to be completed by fiscal year end as there is only the Medicaid administrative claims audit left.

Dr. McCoy asked if the new plan would include accounts payable and payroll, and Ms. Moore confirmed.

Dr. McCoy asked if there were any other questions regarding the audit plan. Since there were none, she thanked Ms. Moore for the update and moved to the next agenda item – vote on special meeting.

#### **IV. New Business**

##### **A. Vote to Hold Special Meeting**

Dr. McCoy stated that as Ms. Moore mentioned, she expects several investigations to be completed in the next couple of weeks and has requested a special meeting to discuss the



observations from those investigations. Dr. McCoy clarified with Ms. Moore regarding whether she wanted the meeting held next week or two weeks from now. Ms. Moore suggested next Friday if everyone is available. Dr. McCoy then facilitated a conversation to determine schedule availability. It was decided that Friday the 18<sup>th</sup> at 10am would be the first choice, with a backup option of Tuesday the 22<sup>nd</sup> at 1pm depending on the availability of the County Manager. Dr. McCoy then asked for a motion to vote on those dates. Mr. Gordon offered the motion and Mr. Rojas seconded. The vote passed unanimously.

Dr. McCoy then asked if there was any old business to discuss. There was none.

## **B. Welcome the New County Manager**

Ms. Moore welcomed the new County Manager, and Dr. McCoy thanked her for attending the meeting today and listening in on the audit oversight meeting. Manager Sowell thanked the group for the invitation and for allowing her to sit in and become familiar with the work of this committee. She thanked the committee for the great work that they are doing; as Interim Manager Hager said, they are helping to protect the brand. She added that she understands how critical this work is and really appreciates the time and commitment the committee members make to this. She stated that she looks forward to working with the group in the future.

Mr. Gordon and Dr. McCoy thanked Manager Sowell.

Ms. Moore then thanked Interim Manager Hager for all her help and support and putting up with the group for the past year. Dr. McCoy also thanked IM Hager as well, especially for finding additional resources. Ms. Moore added that IM Hager went out with a bang. IM Hager stated that she appreciates the committee's commitment to Durham County in their roles as volunteer committee members. She thanked them as a resident.

## **V. Adjournment**

Dr. McCoy adjourned the meeting at 4:38 PM.