

Minutes of Buncombe County Audit Committee
August 14, 2018
9:00 AM

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

Members Absent: None

County Staff Present: Commissioner Brownie Newman, Terri Orange, Jennifer Durrett, Dustin Clark, Kelly Houston, Autumn Lyvers, Blair Chamberlain, Eric Hardy, George Wood, Curt Euler

Others Present (by phone): Bill Early, Principal – CliftonLarsonAllen (CLA), Chris Kessler, Manager – CliftonLarsonAllen (CLA), Ryan Merryman, Principal, Forensic and Valuation Services, CliftonLarsonAllen (CLA)

The Audit Committee Chairman, Larry Harris, called the meeting to order at 9:01 AM.

Introductions

Terri Orange, Internal Auditor, introduced interim County Manager George Wood and interim Finance Director Eric Hardy.

Review and Approval of Meeting Minutes

The minutes from the June 5, 2018 meeting were presented. There was no discussion. Commissioner Whitesides moved to approve the minutes. Commissioner Robert Pressley seconded the motion. The motion passed unanimously.

CliftonLarsonAllen (CLA) Discussion on Financial Statement Audit and Scope

CLA updated the Audit Committee on the current status of the financial statement audit. Based on the preliminary information obtained and the indictments to date, CLA will expand testing to obtain reasonable assurance on the status of the County's control environment and internal control structure.

CLA outlined the following concerns:

- Representation Letter
 - The financial statement audit cannot be issued without a signed representation letter. These are normally signed by the County Manager and the Chief Financial Officer (CFO) during the audited period. The County's staff in those roles are no longer employed.
- Monitoring Indictments
 - If new indictments occur, the scope of the financial statement audit will likely change resulting in a contract amendment.
- Audit Due Date
 - Currently, the financial statement audit is expected to take longer than the due date to the Local Government Commission (LGC) of October 31st, 2018.

Forensic Audit Discussion

Points made by CLA:

- CLA could either perform forensic procedures or coordinate with another firm the County may choose.
- A financial statement audit focuses only on the fiscal year under audit; a forensic audit can focus on multiple years.

- The role of financial statement auditor conflicts with serving as an expert witness in the same matter. CLA could do forensic procedures for the County, but if the need arises for an expert witness, the County would have to hire another firm to assess the work of CLA and testify.
- If a forensic audit is initiated while the financial statement audit is still in progress, it is CLA's practice to withhold issuing a financial audit opinion until the forensic audit is complete.
- The federal investigation may be zeroing in on specific activities, rather than examining a large scope. If the County delays forensic audit work pending the outcome of the federal investigation, the County could end up waiting for information from the federal investigators which may never be shared with the County, or at least not for some time.

Points made by the Committee:

- The scope of a forensic audit would be unclear at this point since the federal investigation is on-going.
- Curt Euler recommended waiting until the criminal proceedings are complete before starting work pertaining to a civil proceeding since such activity could compromise the work of the criminal proceeding. George Wood agreed.
- It may not be wise to spend money on a forensic audit that may duplicate work that the federal government is conducting.
- There is a control environment issue at Buncombe County and implementation of the COSO Framework, which was adopted by the Board of Commissioners last fall, is desirable. It may be advisable to hire an outside firm to assist with implementation.
- An internal control assessment could be explored, as opposed to a forensic audit, in order to assess the "here and now" of the County's controls. However, the Committee would like to understand changes that have already been made by management.

After discussion, Larry Harris suggested the Audit Committee recommend the County continue as planned with the financial statement audit, increasing the scope as needed, and have the financial statement audit issued prior to engaging in a forensic audit. After the issuance of the financial statement audit, the County and Audit Committee can assess the status of the federal investigation, as well as consider the outcomes of the financial statement audit, before making a decision on a forensic audit. No members spoke in disagreement. Mr. Wood agreed with this view, and reiterated that this decision does not mean the County is not going to do a forensic audit; just that the County needs to wait until the financial statement audit is complete in order to reassess the situation and proceed from there.

Next Steps

- CLA will assess scope changes and provide a proposed contract amendment for Committee consideration.
- At Commissioner Newman's request, and for the benefit of the full Board and public, George Wood and Larry Harris will give an update on this Audit Committee discussion at the August 21st, 2018 Board of Commissioners meeting.
- At the Committee's request and at a future meeting of the Audit Committee, staff will present the policy and procedure changes that have been implemented over the past year.
- Kendra Ferguson and the external audit subcommittee will research internal control assessments.
- Once the financial statement audit is complete, the forensic audit discussion will resume.

Staff Update

George Wood provided a brief staff update to the Committee regarding the status of the Finance Director recruitment. The applicants are scheduled for interviews next week. His goal is to present the candidate for approval at the second Board of Commissioners meeting in September.

Mr. Wood also stated he expected to interview internal applicants for the Budget Director position in the next week.

Internal Audit Update

An Internal Audit update was tentatively scheduled for this meeting, but given time constraints, this has been delayed until the next meeting.

Meeting Schedule

Terri Orange reminded the committee about the upcoming scheduled meetings.

- Tuesday, October 23, 2018 at 9:00 AM
- Tuesday, December 4, 2018 at 9:00 AM

Adjournment

Chairman Harris adjourned the meeting at 10:36 AM.