



Board of Commissioners
Gates County, North Carolina

In planning and performing our audit of the financial statements of Gates County, North Carolina as of and for the year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the County's internal control over financial reporting (the "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.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter includes comments and suggestions with respect to matters that came to our attention in connection with our audit of the financial statements of the County as of and for the year ended June 30, 2019. A separate report dated February 24, 2020, contains our report on material weaknesses in the County's internal control. This letter does not affect our report dated June 25, 2019, on the financial statements of the County.

The following items are offered as constructive suggestions to be considered as part of the ongoing process of modifying and improving the County's practices and procedures:

- 1) During testing of the manual journal entries posted by the County, we noted five (5) of the twenty-five (25) selected entries did not have proper approval from management. We recommend all manual journal entries are approved from management.
- 2) During our testing of disbursements, we noted one (1) out of twenty-five (25) selected disbursements had no approval for payment. We recommend all disbursements are being approved from management.
- 3) Accounts payable aging/sub-ledger is reviewed and reconciled to the general ledger. The County's current accounting software does not have the ability to track the detail listing of open unpaid invoices. Once the payables have been accrued, there is no way for the County to reconcile which vendor balances have not been satisfied. Management maintains a manual listing of accounts payable. During the testing of the current year activity, we noted accounts payable were not being reviewed and reconciled to the general ledger on a monthly basis. Reconciliations should be completed on a monthly basis. We recommend the County's management ensure controls are in place to require the reconciliations be performed on a timely basis, including the documented review of the reconciliations.

- 4) During our testing of the interfund cash activity, we noted the Emergency Telephone System Fund was reporting a negative share of the cash balance. Anytime a fund reports a negative share of the cash pool, the fund's ability to repay those advances should be performed. As the fund has no way to control the revenue which comes in and the only way to settle the shortage of cash is through a transfer or supplement from the General Fund, an adjustment was made to move approximately \$12,000 from the General Fund to cover operating expenditures of the Emergency Telephone System Fund in excess of funding received from the State. As part of the County's year-end procedures, an evaluation should be performed of any funds with negative pooled cash to ensure they have the ability and intent to repay the borrowings.
- 5) The County's accrual of the year-end salary accrual did not include the full gross wages and related benefits for all employees, but only included the net pay as part of the accrual. As the employees earned the full gross wages through services provided as of June 30, 2019 an adjustment of approximately \$40,000 was made to increase the accrued wages in the General Fund as of June 30, 2019.
- 6) The County's mapping in the pooled cash account was not properly set-up and as a result cash balances were not being allocated between the pooled funds, but rather interfund payables were accumulating without being settled. In total adjustments of approximately \$6.5 million were required to allocate the cash and eliminate the interfund balances between each of the County's funds. As the County functions with a pooled cash account, we recommend management carefully monitor any accumulated balances in the interfund receivable accounts as these will typically represent mapping errors in the transaction posting process.
- 7) In today's Information Technology environment entities can outsource many areas of its operations, including all or part of any service, process or system operation. Outsourcing of technology-related services may improve quality, reduce costs, and strengthen controls. The decision to outsource should fit into an entity's overall strategic plan and the County's objectives, and the degree of oversight and review of outsourced activities should depend on the criticality of the service, process or system to the entity's operation. We recommend that Gates County develop a comprehensive vendor risk management process to govern their third party service provider relationships. This process should include risk assessment, selection of service providers, contract review, and regular monitoring of service providers. Outsourced relationships should be subject to the same risk management, security, privacy, and other policies that would be expected if the entity were conducting these activities in-house. Annually, the Board should ensure an independent review of the entity's vendor risk management process.

Closing Thoughts

We have already discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management, the Board of Commissioners, and others within the County, and is not intended to be, and should not be, used by anyone other than those specified parties.

We appreciate serving Gates County, North Carolina and would be happy to assist you in addressing and implementing any of the suggestions in this letter.

Mauldin & Jenkins, LLC

Atlanta, Georgia
February 24, 2020