

**GATES COUNTY BOARD OF COMMISSIONERS  
SPECIAL MEETING MINUTES  
DECEMBER 14, 2009**

The Gates County Board of Commissioners met in Special Session on Monday, December 14, 2009 at 9:00 a.m. in the Commissioners' Room, 202 Court Street, Gatesville, NC. Commissioners Twine, Jernigan, Askew, Nickens and Jordan were present. Also present was County Manager, Toby Chappell.

Chairman Twine called the meeting to order. A prayer was led by Commissioner Jordan.

**Approval of Agenda**

Commissioner Jernigan made a motion to accept the Agenda as presented. Commissioner Nickens seconded the motion, motion carried without opposition.

Chairman Twine stated the purpose of the meeting was to discuss concerns Commissioner Jordan had regarding the 2008-09 Audit with Bryan Starnes, Martin Starnes and Associates. This discussion will be held via teleconference.

A list of audit concerns and the responses discussed are listed below:

**Concerns**

Audited Financial Statement – June 30, 2009

1. Page 33 – states that County does not have policies regarding custodial risk for deposits. What are other Counties doing?

Compliance Letters - June 30, 2009:

1. Page 2 – Other Matters: County reports administrative reimbursement expenses as revenue rather than contra-expenditure. What are we doing to rectify this item?

2. Page 2 – Other Matters: County is not using a purchase order system ... Are we investigating the benefit/cost of implementing a purchase order encumbrance system?

3. Page 2 – Other Matters: County should implement a pre-deposit control and a comparison of validated deposit slip control. Where do we stand on this item?

4. Page 2 – Other Matters: Collection and remission of taxes collected for Town of Gatesville and drainage districts accounted for under General Fund; should be Agency Fund. Where do we stand on this item?

5. Page 10 – Schedule of Findings, Responses, and Questioned Costs: Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 – Yes. What does this encompass and has it been reported? See page 15, item to be reported is Finding 2009-3 (Proper Approval of Journal Entries).

6. Page 10 – Schedule of Findings, Responses, and Questioned Costs: Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act – Yes. What does this say, and has it been reported? See page 15, item to be reported is Finding 2009-3 (Proper Approval of Journal Entries).

7. Page 11 – Finding 2009-1: Social Services Trust Fund Findings and Violations

- Cause – identifies inadequate training for maintaining a trust fund on behalf of the Social Security Administration. What type training is needed by DSS, when will it be obtained and where?
- Cause – identifies lack of local authority given to County Manager and Finance Officer to force DSS Director to comply with County directives, general statutes ... Making the DSS Board a 5 member in lieu of current 3 member, is this sufficient? Will need a resolution to enact change.
- Management's Response – did not address turning over funds of the deceased beneficiary and establishing a policy to determine this be done in a timely manner in the future.

#### 8. Page 12 – Finding 2009-02: Financial Reporting

- Cause: States that County does not require Finance Officer position to possess both the financial reporting expertise and the technical ability to carry out the role of Finance Officer. What does F.O. job description say? Does it need to be amended?
- Effect: Who is the external auditor the County engages? What is their cost?

#### 9. Page 13 – Finding 2009-03: Proper Approval of Journal Entries

- Condition – no controls to prevent F.O. from recording unauthorized journal entries; except County Manager and Board of Commissioners budget-to-actual reports review on a monthly basis.
- Recommendation – Management is to be reminded that their review is a critical function of the internal control system. Make Commissioners aware.
- Other – This finding is required to be reported in accordance with the State Single Audit Implementation Act and in accordance with Section 510(a) of OMB Circular A-133. What is required to be done?

#### 10. Page 13 – Finding 2009-04: Reconciliation of Subsidiary Ledgers and Segregation of Duties

- Condition – Tax office and Finance Officer do not reconcile the general ledger, collections, and outstanding tax receivables; collection drawers do not have locks; adjustments can be processed to customers' accounts without supervisor's approval. What are the fixes for this?
- Recommendations – have they been implemented?

#### **Responses**

December 8, 2009

Audited Financial Statement – June 30, 2009

Mr. Starnes did not have a written response to the first concern but verbally suggested the County post this question on List Serve and poll other counties. There is nothing wrong with investing mainly with NC Capital Trust. The County's Cash Management and Investment Policy should have a statement included for custodial risk.

#### 1. Page 2 – Other Matters – Reimbursement of administrative expenses

GASB 33 addresses the proper reporting treatment for internal reimbursement of administrative expenses. It is not uncommon for enterprise funds to reimburse the general fund for its share of the administrative expenses that are normally borne 100% by the GF. At Gates County these items were properly budgeted as an expense in the enterprise fund and a revenue in the GF. However, GASB 33 prescribes that the revenue in GF be presented as a reduction of expenses rather than as a revenue source. In order to correct this, all that needs to be done is for the reimbursement to be presented as "negative expense" in the department budgets that are being reimbursed, and eliminate the revenue budget line item. It is very common for this reporting adjustment to be corrected when we pick up a new engagement.

*Mr. Chappell stated the Finance Officer was working on a Budget Amendment to cover this concern.*

2. Page 2 – Not a statutory requirement, but it would enhance the budget monitoring process. The County should only consider a purchase order/encumbrance-policy if it will empower the manager and finance officer to enforce it.

*Mr. Chappell stated a purchase order policy has already been written and he was in the process of reviewing it. It will appear before the Commissioners in the very near future.*

3. Page 2 – internal control finding, not sure of the status. We will follow up during our interim procedures in the spring. Not an unusual finding for small governments with limited staff, but it is a solvable issue.

*Mr. Chappell stated this was already in place in the County Manager's Office.*

4. Page 2 – not sure of the status, but I think it was resolved as soon as it was pointed out to Sandy.

*Mr. Chappell stated this matter has already been taken into consideration and an Agency Fund Account has been set up.*

5 and 6 Page 10 – “The Summary of Findings, Responses, and Questioned Costs” is a scorecard presentation of the Single Audit results so that the Office of Management and Budget (OMB), the Audit Clearing House, and the LGC can easily “check off” of they have received all of the data they are required to receive. So if there is a “yes” then that tells the OMB to read on into the report. If there were “no’s” then the oversight agency would know it was a clean Single Audit report and no follow up is required on their part.

So to answer your concern all of the disclosures are included in the report, all of the subsequent reporting has been completed and there is no further action required by us, the County Commissioners, or the finance officer.

What happens with the internal control finding is that the oversight agency will accept management's response and then in 2010, we will evaluate the status of the finding and report that it has been resolved (assuming management carries out its response).

7. Page 11 – DSS Finding regarding the Trust Fund

The Social Security Administration and the Department of Health and Human Services Manual clearly outline the duties, responsibilities, and requirements of maintaining the Trust Fund for social security dollars of your citizens. I am not aware of a specific class that can be taken, but I would suggest simply requiring the DSS Director to meet with the Manager and the finance officer to go over the printed information regarding the trust funds and make sure the County is in compliance. Alternatively, ask neighboring larger Counties to have their DSS Trust Fund folks provide an informal training session.

*Colleen Turner, Social Services Director, was present during this response. She responded training was not currently available for DSS employees in regard to payee accounts. She has requested training be available in 2010.*

8. Page 12 – Financial Reporting

Statement of Auditing Standards 112 requires auditors to inform the highest level of management if the finance officer can not draft the financial statements without assistance from the auditor. This is a VERY COMMON finding in governmental auditing. Why? Because the skills to draft a financial statement in compliance with all of the Governmental Accounting Standards are acquired in the field of public accounting and since most finance officers are not CPA's, nor are they required to be, the skills to draft the financial statements were not part of their technical training.

This “weakness” is no different that the fact that I cannot do corporate tax returns. *“I am a CPA, in a public accounting firm, therefore I should be able to do estate planning, tax returns, and audit governments.”* No the truth is that this is not my skill level, because I was never trained in the field. That does not reduce my expertise in governmental auditing.

It is unfortunate that the Auditing Standards Board specifically addressed this as a finding, because it causes a lot of confusion. We have over half of your auditees who get this finding and have very qualified finance officers. A significant number of our for-profit clients get this finding because they cannot prepare the Statement of Cash Flows. This does not make their controllers bad at their jobs, it is simply an issue that must be reported to management so that they are aware of the condition.

We are engaged to draft the financial statements at a cost of \$4,000. However, if the County were to draft the financials, it would not save \$4,000; probably more like \$2,000 because then we would have to extend audit procedures to the draft of the financial statements, test it for proper disclosure, presentation, amounts agree to the trial balance, etc...

Why has this not been disclosed to the Board in prior years? Can't answer for your prior auditor, but I can tell you the finding has been effective since June 2007.

9. Page 13 – Same as #5, page 10. Since journal entries can affect any number in the trial balance, it has to be reported as a finding for audit purposes and Single Audit purposes.

*Mr. Chappell stated he is currently approving all journal entries. They are available for review in his office upon request.*

10. Page 13 – Internal issue, do not know if changes have been implemented.

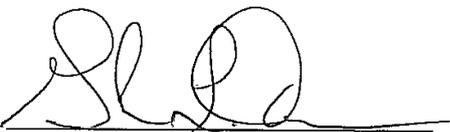
*Mr. Chappell stated Mrs. McGinnis has already implemented corrective actions in the Tax Department. Individual drawers have not been put in place at this time.*

#### **Commissioner Comments**

Commissioner Jernigan stated the environmental survey team from Duke University feels the County should have a noise ordinance in place; Duke Law School will be writing this ordinance for the County.

Commissioner Twine stated he had concerns in regards to limiting rifle hunting in the Sandbanks area.

Commissioner Jernigan made a motion to adjourn. Commissioner Nickens seconded the motion, motion carried without opposition.

  
Graham L. Twine, Chairman

  
Diane R. Hendrix, Clerk

GATES COUNTY BOARD OF COMMISSIONERS

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