



For Recording Stamp Only

Minutes of the Meeting of the
Deschutes County Audit Committee

Date: October 11, 2024

Location: Deschutes County Adult Parole and Probation
 63360 NW Britta #2, Bend, OR 97701

x	<i>Facilitator:</i> Elizabeth Pape, County Internal Auditor		
Audit Committee Public Members (6 members)			
x	Daryl Parrish, Chair	x	Summer Sears (via Zoom)
x	Joe Healy (via Zoom)	x	Jodi Burch (via Zoom)
x	Phil Anderson	x	Kristin Toney (via Zoom)
Audit Committee County Management Members (3 members)			
	Patti Adair, County Commissioner	x	Charles Fadeley, Justice of the Peace
x	Lee Randall, Facilities Director		
Others Present:			
x	Aaron Kay, Performance Auditor	x	Nick Lelack, County Administrator and Ex-Officio member
x	Erik Kropp, Deputy County Administrator (via Zoom)	x	Whitney Hale, Deputy County Administrator
x	Trygve Bolken, Human Resources Analyst	x	Heather Herauf, Procurement Manager
x	Geoff Hinds, Director Deschutes County Fair and Expo Center	x	Eric Nielsen, Facilities Capital Improvement Manger
x	Robert Tintle, CFO	x	Jason Bavuso, Interim Director Human Resources (via Zoom)
x	Jana Cain, Accounting Manager & Controller	x	Melinda Campbell, Applications System Analyst III Information Technology (via Zoom)
x	Larry Stafford, Peer Review Team Member (via Zoom)		

This HYBRID meeting was held virtually via Zoom Conference Call, and in the Allen room of the Deschutes County Services Building.

I. **Call to Order:** Chair Parrish called the meeting to order at 1:00 p.m.

II. **Introductions / Notices:** None

III. Approval of Minutes for August 16, 2024 Regular Meeting

Motion: Chair Parrish

Second: Judge Fadeley

Votes: All yes

Motion carried

IV. Internal Audit Reports

a. Fair and Expo RV Park Integrated Audit

- Aaron Kay presented the findings of this audit. He thanked Geoff Hinds and his staff for accommodating the audit amongst a full calendar of events.
- The RV Park has 105 full-service sites (with power, water, and sewer). There are also on-site laundry and shower services.
- From a revenue standpoint, Kay explained the pandemic both helped and hurt. The RV Park experienced a surge in travelers post-pandemic in 2021.
- Kay spoke about some recent system upgrades. The RV Park recently transitioned from coin-op laundry to card payments. Additionally, they transitioned to a new online reservation system, increasing card payments to 98% and reducing the likelihood of fraud.
- Observations:
 - The RV Park's procurement procedures complied with County Code, and it used its purchasing card appropriately. This card is associated with Fair and Expo as a whole, and not the RV Park specifically.
- Findings:
 - The procedures are not comprehensive enough to cover practices observed.
- Recommendations:
 - Complete a Fraud Risk Assessment to identify areas of risk, then establish controls to mitigate risks or accept the risks.
 - Document procedures related to cash handling.
 - Create security features using Fraud Risk Assessment to identify "bad actors".
 - Establish a segregation of duties.
 - It was noted that performance reporting is rolled up into the overall Deschutes County Fair and Expo (DCFE) Center, so occupancy data is not readily available for decision makers. It was recommended to use existing data to report on RV Park specific performance by either individual reporting or DCFE incorporate the RV Park into their reporting.
 - Americans with Disabilities Act (ADA)-compliant website improvements were recommended. The current website has a 61% accessibility rating.
 - Responding to Phil Anderson, Hinds said the RV Park reports on finances. Fund 618, the RV Park Operating Fund, goes through review by financial procedures, the Fair Board subcommittee, and the BOCC via the monthly financial report. It was noted that DCFE has a separate reserve account. Hinds shared they are currently looking into the best way to share information.

b. Facilities Courthouse Expansion Pre-Construction

- Lee Randall disclosed he would be participating in this portion of the meeting and the presentation as an *auditee* rather than an Audit Committee member. He will not be participating in any deliberations or voting related to this agenda item.
- Kay provided a brief history of three separate buildings on the property, including the AJ Tucker building, the original white courthouse and the red brick courthouse. He noted that two new judges were appointed to the Circuit Court in 2021, contributing to the need for two additional courtrooms. The design of the 50,933 square feet expansion has enhanced security features, segregated entries and pathways, expanded administrative offices and two new courtrooms.
- The audit assessed the effectiveness of the County in managing the \$44 million project before construction is underway. Included were three phases:
 - Assembling a Project Team - A Construction Manager/General Contractor approach was chosen. The Architect and Contractor work in conjunction with one another. An Owner's Representative was also hired.
 - Design Phase
 - Permitting Process
- To measure effectiveness, Internal Audit selected the Project Management Body of Knowledge.
- Results of the audit highlighted a lot of successes. The Owner's Rep serves a fiduciary role for the County, providing expertise.
- Areas in need of improvement include navigating complexity and optimizing risk response.
- The City of Bend permitting process was delayed. A proper risk analysis should have considered these risks. The original 37-month timeline estimate will now stretch to 4 years.
- The Owner's Representative model causes some gaps in oversight, as there can be a blurring of roles and responsibilities regarding who is in charge for making decisions. Some causes include a reliance on experience and judgement over a project management framework and undocumented policies and procedures for construction project management.
- Recommendations:
 - Implement construction project management framework to help develop policies and procedures.
 - Related to contract management:
 - Implement cost control measures.
 - Properly handle subcontracts with limited bids.
 - Establish equity in public contracting. It was recommended to include equity language in contracts. Facilities will coordinate with County Legal to create contract templates and general conditions.
- Part 2 of this audit will take place in 2026 when the project is close to completion.

- Randall commented the audit was an in-depth process and thanked Pape and Kay for their work. He acknowledged Eric Nielsen and Jeannette Schreckenghaust for putting together the documentation packages.
- Responding to Anderson, Nielsen said LRS Architects has been very involved in the process. As the design is intensive and complex, Facilities didn't seek to limit the construction administration portion of the Architect's contract. It accounts for perhaps 10% of the overall contract billing.
- Randall described a public square or courtyard that will be created in place of some of the slanted parking spots from Greenwood to the original main entrance. They worked with Department of Homeland Security for a secure design and incorporated some of their recommendations. For instance, the planters shown in the rendering act as vehicle barriers.
- Responding to Lelack, Greenwood Avenue's bike/pedestrian-friendly redesign played a role in the design process and required some coordination.

c. Human Resources Health Benefits

- Pape described the budget and implementation roles played by multiple partners, including: Human Resources, Employee Benefits Advisory Committee (EBAC), Finance, Administration, County Commissioners, PacificSource (the third-party health benefits administrator), and Davidson (the health benefits consultant).
- For a long time, the County did not experience major increases in claims cost, averaging a 3% annual increase between FY13 and FY21. Since FY21, the annual increase has jumped to around 13%.
- The objective of this audit was to determine whether HR staff oversaw the medical health benefits program to control costs and ensure that members receive the best service. Internal Audit analyzed claims data, reporting from PacificSource, and payments-to-claim data.
- Findings and recommendations:
 - Because the County is self-insured, it has a Health Benefits Fund reserve policy per state law. BOCC has adopted an additional contingency balance to pay for unanticipated large expenses. The \$18.1 million fund balance in March 2019 fell to \$3.4 million by June 2024. The big drop started in March 2022 (\$16 million down steeply). In December 2022, policy makers decided to increase premiums. There was a lag time due to the 18-month budget cycle implementation and due to plan changes not taking place until the annual open enrollment. Audit's recommendation was to perform a root cause analysis and after-action report.
 - The next finding relates to data security. PacificSource has a HITRUST certificate instead of Service Organization Controls. Pape and Kay completed a HIPAA training and PacificSource sent them data for customers other than Deschutes County employees. After informing PacificSource of the error, Internal Audit deleted the data, and it was not compromised. Audit's recommendation was for HR to negotiate with PacificSource for a Service Organization Controls report. HR disagreed with Audit on this recommendation, and was fine with the HITRUST certificate and will accept the risk.

- The next set of findings relates to performance reporting. In the next contract, it was recommended that HR ask PacificSource for performance related information related *only* to Deschutes County.
 - The next set of findings relate to payments from the County to PacificSource. Payments were matched up with invoices, which in turn were matched up to claims data. Although no exceptions were found, there were no documented procedures on how this should occur. It was noted there is a very quick turnaround time on these payments, elevating the risk.
 - Responding to Randall, Bolken said the main drivers to the increased costs are high medical claims such as organ transplants (historically there was only one per year on average, but now the County receives several per year). Some prescription drug costs have increased dramatically. Additionally, the average cost of claims has skyrocketed due to inflationary pressures and the lack of competition due to having only one hospital in Central Oregon. Although there was some pent-up demand post-pandemic, medical costs across the board have increased dramatically.
 - Sears asked Tintle about the annual budget process. For the past two years, Tintle said that health benefits plan costs have come in much higher than the data and trends predicted. Consequently, they were forced to charge departments higher premiums than budgeted. Finance is trying to be proactive to bring reserve back up (currently at \$4 million and projected to be \$8 million at year's end). It was noted that it was believed the balance was too high back when it was at \$18 million, so it was purposely drawn down.
 - As the Budget Officer, Lelack is confident as the BOCC is committed to collaborating on this issue and keeping the reserve healthy. Responding to Chair Parrish, Tintle said that \$8 million is the target amount for the Employee Health Benefits Fund Reserve.
 - Responding to Sears, Bolken said that the contract with PacificSource ends at the end of 2025, so they will go out for RFP for the 2026 plan year.
 - Chair Parrish reminded the group to please complete the audit survey.
- d. **Status Report:** Pape summarized where she and Kay have spent their time over the past two months, noting the shift of these reports from quarterly due to the recent change in meeting frequency. She shared the proportion of time spent on completed audits, follow-ups, non-audit work, administrative tasks, Continuing Professional Education (CPE), Audit Committee, and the whistleblower hotline. Responding to Sears, Pape summarized time related to investigating hotline matters, adding that one investigation is near wrapped up and she will share the results at the next meeting.
- **In-process and Upcoming:**
 - **Translation and Interpreter Services**
 - **Public Health Integrated**
 - **Fair and Expo Fair Alcohol Sales**
 - **Global Follow-up**
 - **Sheriff's Office Transition**
 - **Clerk Elections Controls for May 2025**

V. Special Topics

a. Internal Audit Peer Review Results – Larry Stafford

- Pape introduced Larry Stafford, Audit Services Manager for Clark County, Washington, as one of the members of the Peer Review team. Jennifer Lim, Audit Manager for Denver, Colorado was the other peer reviewer. Stafford and Lim reported to Lyndon Remias, City Auditor for Virginia Beach, Virginia.
- An External Peer Review is required by County Code 2.14.090 A, every three years. One member benefit is that you can participate in peer reviews across the nation.
- The 2018 Revision of the Government Auditing Standards (GAS) Yellow Book has general standards for peer reviews and places a high value on independence. The objective of a peer review is to assess the adequacy of Internal Audit's quality control system to provide reasonable assurance of compliance with GAS.
- Stafford summarized Quality Control Standards and Review Objectives. The team selected a sample of completed audits and examined components to evaluate how well they comply with the standards. On-site interviews were conducted.
- There are three possible Peer Review Results - pass, pass with deficiencies, or fail. The Deschutes County Office of Internal Audit received a **PASS** grade, meaning that Internal Audit was adequately designed and operating effectively to provide reasonable assurance of compliance with GAS and applicable legal and regulatory requirements.
- Areas that may pose additional risks were highlighted in the Management Letter shared. A section of County Code requests that Department Heads be members of the Audit Oversight Committee and Code also mentions the Audit Schedule, to be submitted for review and approval to the Audit Oversight Committee. A potential conflict of interest was noted for those departments subject to an audit, but this addressed in code, and these members should avoid voting on audit matters related to their departments. Responding to Sears, Stafford said they did review recommendations by prior peer reviews.
- Two areas were highlighted where the Office of Internal Audit is **strong**:
 - High quality of work, as evidenced by the national Knighton Award received in 2022 and 2023.
 - The depths by which they familiarize themselves with audit topics. It was noted that Kay completed a FEMA training as part of his preparation for the Continuity of Operations audit.

b. Internal Controls – Jana Cain and Heather Herauf

- Heather introduced herself. Although she's fairly new to the County, she worked in procurement for nine years with the City of Bend.
- Herauf spoke about the real risk of vendor fraud and payment fraud, highlighting controls in place for both. New vendor entries and existing vendor updates are carefully reviewed. They have a good separation of duties for new vendors: department enters the new vendor, a senior accounting tech checks for accuracy, and the procurement manager is the final reviewer. Checks were noted as the most fraud-susceptible payment method.

- Herauf then spoke about requisition and purchase order risks. Invoices are not paid until goods/services are received. She summarized the separation of duties. A three-way match is required: PO, invoice and goods receipt. Their goal is to be fiscally responsible with taxpayers' money.
 - The safeguards for the contract draft process lie within the Risk and Legal departments.
 - Cain spoke about Accounts Payable (A/P) risks and preventative controls, noting that she personally reviews every refund that goes out and CFO Tintle reviews and approves all check runs.
 - Some system controls include: no duplicate invoice numbers, a robust workflow, budget stops (password required if account is over budget).
 - Detective controls for A/P were covered, including Cain's review of a monthly report for high dollar invoice payments. Cain also spoke about "Step 99" which hits her and Melinda Campbell for review/approval.
 - Herauf went over Purchasing Card risks and internal controls. These cards have robust fraud alerts and monthly finance reports for reconciliation.
- c. **Risk Ranking for Global Follow-Up** – Ran out of time; this topic will be covered at the next meeting
- d. **Bylaw Proposal** – Ran out of time; this topic will be covered at the next meeting
- e. **Discussion of Process and Work Product for July 2025 Internal Auditor Performance Evaluation – Jason Bavuso**
- Bavuso reviewed the County Internal Auditor's 2024 annual performance review process. He summarized the 2024 process. Historically, Lelack as County Administrator completed the County Internal Auditor's annual evaluation, but Pape and Lelack proposed to HR that the Audit Committee evaluate Pape. The 2024 review process began in July and utilized the general evaluation categories. Pape worked with the Association of Local Government Auditors (ALGA) to learn more about local government auditors are evaluated.
 - Bavuso prompted the committee to discuss Pape's 2025 evaluation period and adopt a new framework. One goal that came out of Pape's 2024 evaluation was to improve upon coordination of audits with departments. This goal may be missing some attributes of SMART goals (refer to handout provided): **S**pecific **M**easurable **A**chievable **R**elevant **T**ime-Bound. Some refinement may help Pape guide through the 2025 evaluation.
 - Another potential modification includes output from the Audit Committee and how that's communicated to Pape. Bavuso suggested the feedback be holistically reviewed and incorporated into a memo without conflicting direction. He offered to be a resource for the committee on assembling thoughts on Pape's current evaluation period to be incorporated into a document.
 - Judge Fadeley suggested the process be started earlier, as her 2024 review was time constrained and without him having a background in audit work, he didn't feel he had a full grasp on Pape's job performance based on the committee meetings alone. Bavuso suggested an option could include a sub-review from Lelack on Pape's performance, while the committee focus on her competencies. Bavuso was tasked by Judge Fadeley to revamp Pape's SMART goals.

- Randall suggested it may be helpful for the subcommittee to compile a mid-year mark with a streamlined and revamped process with some measurable SMART goals and actionable steps.
- A subcommittee was established to create SMART goals and plan for Pape's 2024 annual evaluation, consisting of: Chair Parrish, Judge Fadeley, and Phil Anderson.

Motion: Randall moved tasking the subcommittee with said work

Second: Parrish seconded the motion

Votes: All yes

Motion carried

VI. Other Discussion Items

a. Administrative Update

- Lelack shared the Human Resources Director recruitment has been extended to get a robust applicant pool. They will begin the recruitment process for the Health Services Director in January 2025, as Janice Garceau is retiring at the end of FY25. Additionally, the November election will result in a new Sheriff.
- They are currently working with Finance on a structural imbalance beginning in FY27 and planning accordingly. The FY26 budgeting process will begin shortly, with the mid-year Budget Committee meeting taking place in December where they will address budget assumptions.

VII. Deevy Holcomb, Director Community Justice, provided an overview of her department. Juvenile Detention and Adult Parole & Probation together consist of 95 employees. The departments work towards repairing harm and creating opportunities with a focus on care and compassion. Community-based supervision makes up the bulk of their workload. The juvenile detention center has experienced high staff turnover since the pandemic, but the situation seems to be improving. Shift work and rotating shifts, along with the absence of remote resulted in staff turnover.

VIII. Closing and Adjourn: *Being no further issues brought before the Committee, Chair Parrish adjourned the meeting at 3:25 p.m.*

The next hybrid meeting is scheduled for Friday, December 13, 2023 and 12 noon.

Respectfully submitted,



Angie Powers

BOCC Administrative Assistant