



For Recording Stamp Only

Minutes of the Meeting of the
Deschutes County Audit Committee

Date: March 8, 2024

Location: Adult Parole and Probation, 63360 NW Britta St, Bldg. 2, Deschutes Room

x	<i>Facilitator:</i> Elizabeth Pape, County Internal Auditor		
Audit Committee Public Members (6 members)			
x	Daryl Parrish, Chair	x	Summer Sears
x	Joe Healy	x	Jodi Burch (<i>via Zoom</i>)
x	Stan Turel	x	Kristin Toney
Audit Committee County Management Members (3 members)			
x	Patti Adair, County Commissioner	x	Charles Fadeley, Justice of the Peace
x	Lee Randall, Facilities Director		
Others Present:			
x	Aaron Kay, Performance Auditor		Nick Lelack, County Administrator
x	Erik Kropp, Deputy County Administrator	x	Whitney Hale, Deputy County Administrator
x	Robert Tintle, CFO	x	Jana Cain, Accounting Manager/ Controller
	William Kuhn, Treasurer		Phil Chang, County Commissioner
	Tony DeBone, County Commissioner	x	Jason Bavuso, Assistant Director Human Resources (<i>via Zoom</i>)
X	Kathleen Hinman, Director Human Resources		Deevy Holcomb, Director Community Justice
x	Geoff Hinds, Director Fair & Expo (<i>via Zoom</i>)	x	William Bailey, Patrol Captain Deschutes County Sheriff's Office
x	Angie Powers, Administrative Assistant Admin/BOCC		

This HYBRID meeting was held virtually via Zoom Conference Call, and in the Deschutes Multipurpose Room of the Adult Parole & Probation Building.

- I. **Call to Order** Chair Parrish called the meeting to order at 12:06 p.m.
- II. **Introductions / Notices**
- III. **Approval of Minutes for December 8, 2023**

Joe Healy moved approval of the minutes of the December 8, 2023 meeting. Chair Parish and Kristen Toney supported the motion.

Votes: All YES

Motion carried

IV. Internal Audit Report:

A. Fair and Expo Cash Handling

Elizabeth Pape explained the focus of this audit was on the Fair & Expo revenue, excluding the Annual County Fair & Rodeo, concessions, and RV park revenue. The excluded areas are planned for future audits. The Fair and Expo Center hosts over 400 events per year. Most of the revenue subject to this audit was from events. Objectives of this audit were to review internal cash handling controls and adherence to County Policy F-11 and ensure compliance with federal/state regulations.

Findings:

Incomplete procedures increase risks. Fair and Expo has incomplete documented cash handling procedures. Of additional concern were incompatible duties, as one staff member performed all the cash handling, deposits and reconciliation tasks. Three different software systems are difficult to reconcile with one another. Manual reconciliation (name, date, amount) results in less confidence. Additionally, shared passwords create risk, so there is no way to distinguish which staff member performed each transaction.

Recommendations:

Fair and Expo should have a documented fraud risk assessment and document outcomes. They can use the results of the assessment to develop their procedures. They should outline major financial processes and staff assigned to activities to determine conflicts. It is also recommended they design and document an efficient reconciliation system and use a unique identifier for reconciliation instead of name, date, and amount. Additionally, it is suggested they implement document data security controls for all financial systems and designate who has access to the data and the authority to execute transactions. They should create different passwords and authorities to execute transactions to identify the responsible party.

Healy asked if the department is creating refund logs as an internal control. Geoff Hinds responded that all refunds are authorized by him as the department director. Although credit card transactions account for most of their transactions, cash is still an acceptable means of payment, and a check refund is requested from Finance for cash payments. Jana added that there is some refund oversight by the County's Accounting department. Robert Tintle noted that County policy F7 now contains four separate internal control policies.

B. Overtime / Compensatory Time

There was stakeholder interest in overtime and compensatory (comp) time following the vacation and sick leave audit. Aaron Kay summarized that enhanced oversight enhances transparency. Overtime is defined as any hours worked in excess of 40 per week for non-exempt (overtime-eligible) staff and must be approved by a supervisor. Comp time leave used counts towards the employees' 40-hour work week. Over the past three years, higher vacancy rates correlate with increased overtime hours paid in the Sheriff's Department. The Road Department is a seasonal user of overtime and showed a slightly different trend. For Health Services, although vacancy rates decreased, overtime increased. Kay emphasized that overtime budgeting increased dramatically in FY 23. Notably, the Sheriff's Office underestimated their FY 23 overtime budget to actual.

Findings:

There are insufficient records of exempt overtime decisions as they're found only in the department and an email repository is not a good location for these decisions. The County's comp time expiration rule within its policy is confusing and unnecessary. This rule states that an employee must use their comp time within 180 days of accrual. Although the 180-day rule is not being enforced, employees are using their comp time as soon as they earn it, so the 180-day rule may be unnecessary. Currently, any hours worked over a part-time employees' regular hours are being categorized as comp time, which is not in alignment with FLSA regulations. Related to NOVAtime system controls, there are test accounts in the live system and there are negative leave balances (employees are taking comp time they haven't yet earned) in the system. Responding to an inquiry from a committee member, Kay responded there were nine instances of negative balances over a two-year period. Additionally, Kay noted that generic users in NOVAtime are not in alignment with best practices, as there is no responsibility and accountability for errors. Former supervisors have active NOVAtime accounts even though passwords have been updated, leaving the system susceptible to bad actors.

Recommendations:

To provide more transparency and accountability, monthly financial reports should reflect overtime expenses for major funds when projected personnel services requirements exceed budgeted levels. Kay credited Robert Tintle for helping this recommendation come to fruition. It is recommended to create a centralized repository for payroll decisions that grant overtime compensation to exempt status employees. The County should incorporate policies for comp time payouts when an employee transfers to exempt status, to align with other similar-sized counties. It is also recommended the County establish comp leave options for part-time employees. The Finance department should develop stronger controls around negative comp time balances. It is recommended that individual user accounts are created in NOVAtime, instead of generic users. Additionally, Finance should remove supervisor-level access to former employees.

Observation only / not a recommendation:

Collective Bargaining Agreements (CBA)/Policy allowances on application of comp time as regular working hours allows for system manipulation. Summer Sears suggested the impact of overtime and comp time on the budget might be a future topic for Internal Audit.

Responding to Stan Turel, Kay said there are 879 County employees who are eligible for overtime. Turel expressed concerns for the impact of remote workers' productivity on overtime accrual for those working in the office. He applauded Internal Audit for the high quality and readability of their reports. Pape stated that remote and hybrid workers might be a suitable topic for a different audit. Kay added this is outside the scope of the current overtime/comp time audit and reported that overtime is trending approximately 2% of total overall personnel costs. Turel expressed further concern related to law enforcement burnout. Pape noted an upcoming audit related to recruitment and retention.

Aaron summarized data by department and highlighted some overtime usage disparities based on gender, race, base hours, length of service, CBAs, PERS tier, and job class.

C. Follow-Ups

a. 2023 Global Report Link

Kay noted significant differences between the 2023 global report link and previous years. The progress of ten audits and outstanding recommendations were

summarized. The **duration it takes to resolve audit recommendations** is a new metric. It was noted that recommendations which require County policy or code changes take more time to resolve. Kay commended Community Justice for resolving seven recommendations in only four months. Kay hopes that a Policy Review Committee will be established.

Statistics:

23 reports issued, 190 recommendations made, 128 resolved prior to 2023 global report and 44 remain unresolved. The 4-year resolution rate is 76.84%.

Sears asked if there should be consequences for failure to resolve audit recommendations. Chair Parrish believes that high risk and habitual offenders should be highlighted. Pape said they'll begin asking departments for *goals* towards meeting resolution of recommendations, while acknowledging that not all recommendations are equal, and some take longer to resolve due to external factors. Sears expressed interest in an annual report to the committee on risk analysis relative to duration, as diving deeper into why some are still outstanding would be helpful. Kay clarified that "no progress" means the recommendation is not yet resolved, but this doesn't necessarily mean the department isn't taking steps towards resolution. Surveys aren't currently being provided for follow-ups.

b. Personal Information Data Privacy (22/23-2)

There were four recommendations in the report. County Policy GA-9 was approved and updated after issuance of the report. Whitney Hale shared that a roadmap for next steps has been outlined and they are on their way to making progress. Key staff and data type/location information has been requested from department heads. Training for stakeholders and the organization will be provided.

c. Finance / Tax Controls over Receipts (23/24-15)

This report had four recommendations and three are resolved. The unresolved recommendation deals with selecting a contractor to perform an audit on Transient Room Tax (TRT) revenue. Aaron commended Finance for addressing recommendations promptly.

d. Addition to Agenda: Wage Equity Audit (23/24-5)

Pape provided some historical context. She acknowledged that at a national level, there's a gender wage gap amongst men and women. Additionally, racial disparities exist. The gap has remained steady since the 2000s. In 2017, the Oregon Equal Pay Act passed the legislature. Employers may perform an equal pay analysis. Following equal pay analyses, employers are not allowed to lower anyone's wages, but they can be frozen or increased.

The definitions in the 2017 Oregon Equal Pay Act were used in this audit. Overtime (OT) creates gender disparities. Compared to men, a lower percentage of women eligible to work OT did so. OT increased as a percentage of overall personnel costs in 2023. Overtaxing employees and burnout are considerations, but increasing disparities are also of concern. Job sorting takes into consideration that men and women are doing different kinds of work. Job sorting data shows that jobs with fewer than 25% men tend to pay less than jobs with more than 75% men. Work of "comparable character" is noted in the Oregon Equal Pay Act. Kathleen Hinman noted that job sorting is the main reason the gap between men and women exists in Deschutes County. Hinman shared that a random sample of new hires were

surveyed on how they learned about employment with the County, and it was learned that word of mouth was a primary way. Word of mouth is a poor way to increase workforce diversity.

Related to retention, 55% of non-white women left the County within two years of being hired. White men had more years with the County than other groups.

Findings:

White men earned more in total compensation than other staff in 2022. The County is in the process of conducting an equal pay analysis, but Pape noted that when this audit began, the County wasn't yet planning on conducting an equal pay analysis. Pape noted that an equity review process did not include entry level. New employees are generally placed at step one, and when an employee has extensive prior experience, they should be hired at a higher step (step 2). Hiring at step 3 or higher requires County Administrator approval. However, this isn't consistent across departments.

Recommendations:

County Administration should proceed with an equal pay analysis and should report results to employees and community members. Human Resources (HR) should update Personnel Rules to update equity review process for those offered step 1 or 2 and should seek a more uniform approach. HR should update equity review procedures to include steps 1 and 2 and should provide more information to supervisors about the process.

Responding to Commissioner Adair, Hinman said the contract on wage equity review will be completed in 6 to 8 months. In terms of retention and responding to Chair Parrish, Hinman stated that exit interviews are part of the process and are highly requested. As part of the Equal Employment Opportunity Act, the County reports on % of women and minorities in the workplace, and how the composition compares to the community. Currently, our leadership doesn't represent the community makeup.

Sears commented that she struggled with the overall wording and tone of the report, particularly the "Highlights" page. In her opinion, the message is unclear and some of the language is defensive in tone. She felt the presentation itself was more favorable than the written report. The committee was in consensus for Pape to rewrite the Highlights page. Pape acknowledged this is a complex topic with strong opinions, and she will connect with County Administration to make some edits, tweaks and adjustments.

Jodi Burch highlighted that the audit report is only part of the work that will be done, and the contractor will undertake a larger equal pay analysis. The recommendations being made in the audit report are preliminary and only scratch the surface. It is Pape's hope that the highlights don't minimize the work that was done. Responding to Sears, Hale said the audit report and management response stand on their own, and there are no current plans to get ahead of public perception in terms of a media release.

Pape said a communications plan is part of their internal audit workplan. Erik Kropp clarified that County Code dictates that Internal Audit is functionally reports to the Audit Committee and administratively reports to the County Administrator. This makes the Auditor's independent status tricky. The County Administrator facilitates the County Internal Auditor's performance review.

Kay added that a review of County policies is in their audit workplan for the coming year.

D. Upcoming Audits

- a. **Internal Software Development**
- b. **Clerk's Office**
- c. **Health Benefits Third Party Administrator**
- d. **Courthouse Expansion Construction Project**

V. Special Topics

A. Fiscal Year 2023 Popular Annual Financial Report (PAFR)

Jana Cain summarized the County's 2023 PAFR. It summarizes the year's financial statements and is digestible for the layperson. Courthouse expansion funding and refinancing is covered. A page that is popular to stakeholders is entitled "Where your Tax Dollars Go" illustrates a bar graph depicting the percentage of each Bend taxpayer's dollar goes towards the Bend La Pine School District, the City of Bend, Deschutes County, Bend Parks and Recreation District, and Deschutes Public Library. Tax levies are summarized. Demographics and staffing ratio line graphs are included. Attempts have been made to widely distribute copies of the PAFR throughout the community. Jana shared that Finance received their Triple Crown award for 2022.

B. Audit Committee Survey Results Next Steps

Pape asked the committee for any changes they'd like to see based on the survey results. This will be discussed at the next meeting, as time ran out.

C. Newly Updated Government Auditing Standards

Pape said this represents a change from a quality control program in which instead of the standards telling Audit which components must be included in the quality assurance (QA) program, a risk assessment must be performed on each audit function area to develop a tailored QA program. Policies will be updated, and a peer review will take place.

D. Policy Reviews Memorandum of Understanding

Pape noted that historically, when County policies were updated, they were routed through Internal Audit. However, auditing standards require that Internal Audit (IA) doesn't take on management functions. This MOU outlines when IA will give advice, and a disclosure is included that this is just IA's advice, but management is responsible for the implementation of the policy.

E. Proposal to Expand Transition Audits to Include Departments in Addition to Elected Offices

Traditionally, IA performs a transition audit on outgoing and incoming elected officials. Transition plans, revenues, asset management are reviewed, and recommendations are made to the incoming official. Many recommendations relate to contracts and vendor relationships. IA's proposal is to extend this transition audit to Department Heads.

The Audit Committee supported this proposal but expressed concerns about time constraints. Kay said these are smaller, agile audits to ensure continuity of leadership. Kristin Toney said these audits can be more unpredictable, as election cycles are on the calendar. Burch suggested revisiting this topic when next year's audit workplan is developed.

F. New Internal Audit Goals and Objectives

a. 2024 Goals and Objectives Crosswalk to 2011 Version

Goals and objectives were last adopted in 2011, and with a new Internal Auditor it was time to come up with new goals and objectives. These goals and objectives need approval by the committee.

b. Fiscal Year 2025 Budget

Internal Audit's budget was summarized and is mostly personnel. Program expenses are increasing due to the peer review taking place this year. Peer review takes place every three years. Responding to Burch, Tintle said the conversation of a biennial budget has been considered over the years, and there are pros and cons.

VI. General Follow-Up and Department Updates

a. Internal Audit Status Report

This report illustrates how Internal Audit spent their time.

b. County Updates

The wage equity contract has been signed, and the study will be completed in 6 to 8 months. Keith MacNamara, Veterans Services Director, is retiring after 20 years with the department and recruitment is underway for his replacement.

c. Committee Information

Three public members and one staff member have terms expiring in June 2024.

VII. Other Discussion Items

There was a brief conversation about quarterly meetings, and whether they should meet more often. A survey will be sent out to the committee. Pape acknowledged it's difficult to get through the agenda in three hours on a quarterly basis. Lee Randall shared that intermediate meetings are helpful. Pape urged attendees to complete the survey, and shared that Kay recently won a Knighton award for his Continuity of Operations report.

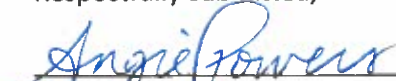
VIII. Closing and Adjourn

The next meeting is scheduled for June 14, 2024, 12:00-3:00 p.m.

Adjournment: *Being no further issues brought before the Committee, the meeting was adjourned at 3:15 p.m.*

IX. Community Justice Tour for those Interested – Time ran out for a tour

Respectfully submitted,



Angie Powers
BOCC Administrative Assistant