



For Recording Stamp Only

Minutes of the Meeting of the
Deschutes County Audit Committee

Date: June 14, 2024

Location: Deschutes Services Building, 1300 NW Wall St, Allen Conference Room

x	<i>Facilitator:</i> Elizabeth Pape, County Internal Auditor		
Audit Committee Public Members (6 members)			
x	Daryl Parrish, Chair		Summer Sears
	Joe Healy	x	Jodi Burch
	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	x	Nick Lelack, County Administrator
x	Erik Kropp, Deputy County Administrator	x	Whitney Hale, Deputy County Administrator
	Robert Tintle, CFO	x	Jana Cain, Accounting Manager/ Controller (via Zoom)
x	William Kuhn, Treasurer	x	Dave Doyle, County Legal Counsel
x	Tania Mahood, Director IT	x	Steve Dennison, County Clerk
x	Kathleen Hinman, Director Human Resources	x	Kevin Mullerleile, Audit In-Charge and Senior Manager Moss Adams (via Zoom)
x	Amanda McCleary-Moore, Engagement Reviewer and Partner Moss Adams (via Zoom)	x	Phil Anderson, Incoming Audit Committee member effective July 1, 2024

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 12:06 p.m.

II. Introductions / Notices

III. Approval of Minutes for March 8, 2024

Motion: Kristin Toney moved approval of the minutes of the March 8, 2023 meeting.

Second: Patti Adair supported the motion.

Votes: All YES

Motion carried.

IV. Special Topics:

A. External Audit Plan for Fiscal year 2024 – Moss Adams

Kevin Mullerleile and Amanda McCleary-Moore introduced themselves and summarized their roles and responsibilities on the County's External Audit Team. Amanda also recognized Ashley Osten as Moss Adams' Quality Control Reviewer and Partner.

McCleary-Moore stated that Moss Adams is required to communicate with Deschutes County twice over the course of the audit, and today's communications relate to the planned scope and timing of the audit. The exit meeting will take place in December, at which time audit findings will be covered.

Mullerleile presented a slideshow summarizing the County's upcoming audit. As the County's External Auditor, Mullerleile stated that Moss Adams' job is to issue an audit report on the County's financial statements and determine whether the statements are materially correct in accordance with Generally Accepted Accounting Principles. The audit is done in accordance with generally accepted auditing standards issued by the AICPA and Government Auditing Standards issued by the Comptroller General of the United States. The audit is designed to identify material misstatements in the County's financial statements. Internal controls over financial reporting and compliance will be considered, with Mullerleile noting that this is the third consecutive year with Moss Adams as Deschutes County's external auditor.

Their audit process is broken down into two stages: internal controls (risk assessment procedures over the County's key account balances) and analytical or substantive procedures over the year-end account balances. The second stage occurs after the County has closed its books and drafted its financial statements.

Mullerleile defined materiality as the amount of a misstatement that could influence the economic decisions of users, taken on the basis of the consolidated financial statements, and is calculated using quantitative and qualitative factors. He noted four significant audit areas for the 2024 audit. Identification of fraud is a key component of the audit and Moss Adams will develop procedures should they detect any issues. He then summarized the FY24 audit timeline. The target is to issue reports by November 22, 2024. At the December 6 Audit Committee meeting, Moss Adams will present their FY24 audit results.

McCleary-Moore provided an update on some recent accounting and auditing developments. Under accounting standards, GASB statement 100 relates to accounting changes and error corrections. Jana Cain noted that ARPA and campus improvement fund (courthouse debt service) will be a couple of the GASB 100 considerations.

Under auditing standards, McCleary-Moore highlighted that Moss Adams must consider SAS 143 which relates to auditing accounting estimates and related disclosures and SAS 145 which relates to understanding the entity and its environment and assessing the risks of

material misstatements. She highlighted some resources offered to clients of Moss Adams: articles/alerts, webcasts and reports/guides.

Responding to Commissioner Adair, McCleary-Moore said that the County is ultimately responsible for monitoring the activities of remote and hybrid workers, and this is not part of their external audit.

V. Internal Audit Report

A. Custom Software Development

Aaron Kay stated that this audit came from an identified risk area in the 2022 Cybersecurity Audit. He acknowledged that all software applications involve some level of risk, including security vulnerabilities, reliability and poor compatibility. Custom-developed software has a higher risk because the County is solely responsible for its security, reliability, and maintenance. He thanked Tania Mahood and her IT team for their cooperation during this audit. He summarized the 6 phases of software development: planning/analysis, design, implementation, testing/integration, deployment and maintenance. He highlighted an organizational shift in IT staff, in which Central IT's staffing level has remained stagnant while other departments have fulfilled their IT needs by hiring additional staff. This federation is rather unique as compared to other counties' IT staffing, and poses a challenge in making it more difficult to maintain security amongst IT's assets.

The report includes 15 findings, and Kay noted that the IT department has some flexibility in the timing to resolve the findings, with some urgent in nature and others being deferred until the establishment of an advisory body. Kay summarized the findings within each of the 6 phases of software development.

1. Planning and Analysis: uncoordinated efforts, unknown costs, unknown products
2. Design: undocumented specifications, undocumented security requirements
3. Implementation: undocumented coding standards
4. Testing and Integration: undocumented guidance, inconsistent availability of secure repository
5. Deployment: missing application documentation (system and users), undocumented authorization and responsibilities
6. Maintenance: undocumented maintenance efforts, tracking of efforts and missing measures

In summary, Kay reported there are some systemic hurdles to IT governance as the structure has evolved but the governance has not kept up with custom development in Central IT and departments. Mahood is making significant efforts to close these governance gaps, but the federated departments are doing as they see fit with little oversight. This practice is risky and makes the County vulnerable to cyberattack or data breaches.

Mahood clarified that the proposed governing or advisory body can be made up of non-IT staff, such as staff from Finance and other departments.

Responding to a question from Phil Anderson, Kay stated that the rate at which the Central IT decentralized into federated departments has exacerbated the issues at hand. Mahood added that this creates complexities among several areas within IT, and not just in custom

software development. She acknowledged that there are pros and cons of decentralization and is hopeful that a balance can be found.

Pape asked the Committee if they feel that certain recommendations are more urgent in nature than others. Randall read Mahood's response with an emphasis on security to minimize risk and he is supportive. Responding to Randall, Mahood reported that the County's IT department supplements its security response with an MSSB (Managed Security Service Provider) to identify, detect and respond to threats. Additionally, IT has hired a new Information Security Manager and the FY25 budget includes two new FTEs to further help bolster their security efforts.

B. Clerk's Office Integrated Audit

Pape contrasted this integrated audit with traditional cash handling audits. The goal for this audit was to look more broadly at procurement and IT objectives. She thanked Steve Dennison, County Clerk, and his staff for their efforts.

The Clerk's Office handles elections and record keeping (recording property records as the custodian of County records). The Deschutes County Clerk was the first county in Oregon to put property records online and to issue marriage licenses. Revenue and expenses for the past 5 years were summarized, with much of this department's revenue being tied to recording real property records (title transfers, mortgages) and fluctuates with home sales and mortgage rates.

The audit included a risk survey in 8 different areas. Fieldwork included interviews and checklists, a review of information systems (including Helion software) and best practices.

The first finding is related to financial risks. Financial procedures don't address risks in four areas: custody of cash, custody of mail, supervisor review and reconciliation of deposits. It is recommended the department complete a Fraud Risk Assessment, which includes an evaluation of their processes and risk identification, analysis, evaluation and treatment and resources were shared. Outcomes of the Assessment are to be documented. Additionally, procedures should be updated to address the fraud risks.

A second finding relates to procurement. Compliance with contracts, competitive procurement and approval authority were examined. Pape noted that ballot printing is exempt from competitive procurement per County Code. One recommendation is for the Clerk's Office to consult with the County's new Procurement Manager for guidance on contracts and competitive procurement. It was also recommended that the department put contracts into place, conduct competitive procurements when appropriate and obtain the appropriate level of signature approval.

Another finding relates to IT role conflicts, in which a records processing procedure involves one clerk recording the record and another clerk reviewing the record. The setting requiring two separate staff members to complete the two steps was overridden and for efficiency's sake, one person was performing both functions in approximately 25%-33% of transactions. It was recommended that management analyze whether these duties should be segregated.

Voided receipts represent another area of fraud risk. The same person could create a transaction and void a receipt. Best practice is for a different person to void the receipt. This function was also turned off for the sake of efficiency. It was recommended to document the workflow impacts of requiring supervisor approval for voids. Should they not require authorization, it is important to document the compensating controls.

Generic accounts with shared passwords are another area of risk. This goes against County policy, and it is recommended that management examines the generic account and frequency of use and if not important discontinue use and should they choose to continue its use to accept and document the associated risks. It was determined to disable the shared account.

Purchasing cards were not kept secure. Transactions were appropriate, but the card was not kept secure. The County Purchasing Card Policy states that the person whose name is on the card should be responsible for its use, and it was recommended the card be kept secure.

Performance measures were examined, and it was determined that some were not reported in a useful manner. It was recommended to clean up the performance measures to make them more useful and readable.

Related to an item discovered during the Clerk's Office transition audit a couple of years ago, Deschutes County Code was recently cleaned up to no longer designate the County Clerk as the designee for machine operators' weed control notifications. This responsibility was transferred to the Road Department.

Steve Dennison, County Clerk, noted a trend in Clerk's Office FTE. Despite the growth of the County, the department had 10.5 FTE twenty years ago and currently has only 11.0 FTE. Although their revenues are trending downwards over the past few years due largely to high mortgage interest rates, they are still an important contributor to the General Fund. Moving forward with future audits, Dennison requested not only a date range for a proposed audit, but also a staff time commitment estimate. Pape responded that it can be difficult to estimate time commitment and often depends upon available documentation.

Toney stated she appreciates this holistic view of an audit as opposed to a strictly cash handling audit.

C. Follow-Ups

a. Continuity of Operations Plan

Follow-ups were deferred until the August meeting.

D. Status Report

a. In-process and Upcoming:

i. County Legal Integrated Audit

Pape reported this audit is wrapping up.

ii. Courthouse Pre-Construction

Kay is currently working on this audit.

iii. Health Benefits

Pape is currently working on this audit and will have more information to share on this audit at a future meeting.

Commissioner Adair highlighted that the Health Benefits Fund is impacted by medical expenses increasing 29% year-over-year as the County is self-insured.

iv. Recreational Vehicle Park Integrated Audit

Kay recently began an audit on the Fair and Expo's RV Park. Commissioner Adair noted competition from other area RV parks who offer longer stays.

VI. Other Discussion Items

a. Proposal for Internal Auditor Annual Performance Review, Communication, and Interim Form

Kathleen Hinman, HR Director, spoke about a proposed change to the Internal Auditor's Performance Evaluation, noting that some topics may wish to be discussed in executive session. The goal is to establish more independence for the Office of County Internal Audit.

Dave Doyle, County Counsel, was in attendance to speak about public meeting laws. He stated that discussion of a performance evaluation may be done in executive session, but the public meeting must be reconvened to take any action or make any decisions. An announcement is to be read prior to going into executive session. Should a subcommittee of the Audit Committee be established, if smaller than a quorum (4 or fewer), it does not need to be noticed as a public meeting. It's best practice to add to the meeting agenda that the committee may go into executive session to discuss a performance evaluation.

Hinman noted that historically, the Internal Auditor's performance review was conducted by the County Administrator, with input from the committee and the Performance Auditor. The proposal is for the Audit Committee to conduct this review, as the Internal Auditor is independent and reports to the Audit Committee with the County Administrator performing an administrative role (approval of timesheets, travel requests, etc.).

The Internal Auditor will present goal setting (including performance goals) and an audit plan annually, and ideally three months prior to her performance evaluation. A self-assessment may be another piece. After lengthy discussion, it was determined that a subcommittee be established to facilitate the process, to be comprised of Chuck Fadeley, staff member, and Jodi Burch and Daryl Parish, public members. One advantage of a subcommittee being smaller than a quorum would be to avoid the necessity of a public meeting. Pape's annual review is due July 30, 2024.

The subcommittee said it would be helpful for Pape to provide them with a self-evaluation. Hinman (HR) will solicit feedback from the entire Audit Committee and Performance Auditor, then communicate this to the subcommittee at least one week prior to July 18. Toney suggested soliciting feedback from department heads who participated in an audit beginning next year.

The subcommittee will meet via Zoom to discuss the feedback, then communicate via email to the entire committee. This communication will be marked confidential, and no discussion is to take place. A **special meeting** was then scheduled for **Thursday, July 18 at 9:00 a.m.** Hinman will send out the Performance Evaluation Forms immediately and set a deadline of July 1st for the forms to be returned to her.

b. Audit Committee Survey Results Next Steps

Pape stated the purpose of the survey was to do a self-evaluation and determine whether the committee wanted to make any changes, and to make service on the committee more meaningful and increase the committee's effectiveness. The survey included 46 questions with categories including: processes/procedures, understanding risks, composition/quality, communications, financial reporting oversight and audit oversight. Pape asked the committee if there are any changes they wish to see. The committee scored process and procedures highest (4.18), and audit oversight lowest (3.60).

Commissioner Adair asked if Internal Audit is planning any upcoming work on an analysis of remote workers. She noted that Wells Fargo recently fired several workers engaged in alleged unethical workplace practices. Pape stated that direct supervisors are responsible for ensuring that remote workers are effective and honest about their time and ensuring that work is getting done (deliverables). Pape noted that Internal Audit follows up on reports from the Whistleblower line. Toney added there is a lot of subjectivity in evaluating remote workers as some workers are more efficient and effective than others.

i. Bylaws and processes, subcommittees

Pape asked the committee if they wish to establish formal bylaws to add more structure to the committee. The consensus was an interest in looking into establishing formal bylaws moving forward, so this item will appear on a future agenda.

ii. Proposal to move from quarterly meetings to every other month

Burch was in favor of increasing meeting frequency, as missing one quarterly meeting is impactful. The consensus was in favor of shifting meeting frequency from quarterly to bimonthly. Randall suggested exploring the possibility and logistics of moving meetings from quarterly to bimonthly. Kropp noted to consider impact to staff. A formal decision will take place at the July 18th meeting.

c. Internal Audit County Code Briefing

Pape noted that a code briefing must be accomplished at least every other year. There are no proposed changes to the County Code this year. She provided a brief overview of County Code 2.14 and 2.15.

In the future, Pape and Kay suggest adding to DCC 2.14.030 a reference to the Whistleblower Hotline. Other future suggestions are to include a timeline for management response to audit recommendations and changing audit language from quality *assurance* to quality *management*.

d. Annual Quality Review

e. Internal Audit Workplan

Pape summarized Internal Audit's completed reports over the past year. Nine audits have been completed over the past 12 months, as compared to 9 the year prior. She summarized Internal Audit's work plan which includes 13 audits to be completed over the next 12 months. Pape proposed some changes, to include removing three audits from the workplan: a personnel data entry audit, a 2024 County Fair food and beverage audit and a select computerized procedures audit. Additionally, the proposal includes adding two audits to the workplan: a Sheriff's Office transition audit and a Knott Landfill integrated audit. Kropp encouraged a discussion with Tim Brownell, Solid Waste Director, prior to kicking off the Knott Landfill integrated audit. Kay said that breaking up Solid Waste's integrated audit into subunits would allow for additional flexibility.

Motion: Randall moved approval of Internal Audit's workplan with one change, to **not** add the Knott Landfill to make the workplan more manageable.

Second: Chuck Fadely supported the motion.

Votes: All YES. Motion carried.

f. Administration Update

Erik Kropp provided a brief Budget Committee update. Historically, additional General Fund (GF) revenue was set aside for future capital expenditures. Although GF revenues continue to grow, expenditures are outpacing these revenues, so the County is facing a much different financial climate moving forward.

g. Committee Information

VII. Closing and Adjourn

The next special meeting is scheduled for July 18, 2024 at 9:00 a.m. and the next regular meeting will take place in August, date/time TBD.

Adjournment: *Being no further issues brought before the Committee, the meeting was adjourned at 3:01 p.m.*

Respectfully submitted,


Angie Powers
BOCC Administrative Assistant