

**Open Work Session
Fiscal Year 2017 Audit Follow Up - PKS
May 15, 2018**

Mr. Mike Kleger with Pigg, Krahl, and Stern came before Council. He said they were requested to address some follow-up questions Council had from their previous presentation, which was in January, which relates to the June 30, 2017 audit. He said he has taken those questions and written them out with some answers, and he can go through any additional comments or questions Council may have after that.

Mr. Kleger said, starting on Page 1 with the question regarding the physical inventory at Public Works, inventory was not done at year end on June 30, 2017, and it was asked how that impacted the financial statements. He said there was a physical count done subsequent to year-end, and then they did some rollback procedures to come up with an estimated June 30th balance by taking reports of materials that were used, as well as invoices for any subsequent purchases, and rolling that back to a June 30th figure. He said the dollar amount of that is not totally significant to the overall financial statements, and they felt that was good process since they started with a physical count, even though it was subsequent to year-end. He clarified, that is how they came up with the June 30th number at that point. He said there was a related question to that asking who actually made those adjustments, and those were posted by the Finance Department to the general ledger after that reconciliation was prepared. He said Item 1-B asks for examples of new controls put in place to the Department, basically, to ensure compliance with the inventory going forward for the upcoming June 30, 2018 audit. He said the Public Works Department has put in place quarterly test counting rather than annual, so they did notice and receive documentation that there were test counts done in December 2017 as well as March 2018, and his staff is scheduled for observing the actual June 30, 2018 physical count for this coming audit year. He said those are the new controls that have been put in place to deal with the physical inventory count.

Mr. Kleger said, for the question at the bottom of Page 1 asking to comment on current staffing levels as it relates to internal controls, he will refer back to their Audit Communications Report at year-end where they did note there were no material weaknesses in internal controls noted during the 2017 audit. He said, however, with staffing changes, vacancies, and personnel changes that always occur, it is important to monitor internal control processes, and to review and analyze those, not only at the audit, but throughout the year. He said part of that process and procedure really would fall in the Internal Audit Department because they are available year-round to monitor internal controls. He said internal controls are certainly something they look at, really, starting in the planning phase for an audit where they look at where the potential significant problems are, and that is kind of their starting point. He clarified, they look at internal controls throughout, but, really, as far as monitoring, that is kind of a year-round process that does not change.

Mr. Kleger said question 2 asked if there were any concerns related to debt levels and the fund balance for the County as of June 30, 2017. He said the short answer to that is no, not at this point. He said the County has used approximately 60 percent of its debt capacity as of June 30, 2017, so that leaves about \$91 million dollars still available at that point before they would run into a capacity issue. He said, as it relates to the unassigned fund balance, the balance was about \$39 million dollars as of June 30, 2017. He said, just from a statistical standpoint, the Government Finance Officers Association, which kind of collects and monitors information nationwide, recommends a minimum of 15 percent unassigned fund balance, or 15 percent of general fund expenditures as unassigned fund balance, and, as of June 30,

2017, the County was double that amount. He said, as a side note, rating agencies have not expressed any concerns, to his knowledge, on that.

Mr. Kleger said the next question was whether they received adequate cooperation from management during the audit process. He said the answer to that is yes, and they had mentioned in their Auditors Communication Package that they had no disagreements with management, and also they received full cooperation from all County personnel during the audit for 2017.

Mr. Kleger said item 3 relates to the County making material corrections to the budget for the year-end audit, and asked to explain the impact of these adjustments, if any, to the auditing process, and also asked them to comment on audit adjustments in general. He said budget adjustments do not really impact their auditing process. He said it is considered supplementary information, and is not really direct audit procedure. He said they do inquiries and analytical procedures related to the budget versus actual, but it is really not an area where they specifically audit the budget. He said there was a significant budget amendment that did not get reflected in last year's financial statements because of the timing of when it was actually passed and completed. He said it was subsequent to their audit report, but it was noted in the notes of the financial statements that there was an adjustment made. He said, as far as the question regarding adjustments in general, he will refer Council to the next question because that deals with adjusting journal entries. He said it reads "We reviewed 83 adjusting journal entries," and he believes the "we" is referring to the Internal Audit Department. He continued, "The number of entries seems to be lower than the prior year. Can you please comment on the year-end adjustments in general." He said, basically, the total adjusting entries were probably about half of what they normally experience, and that, generally, occurred because they deferred and started the fieldwork much later, about three weeks later, than normal. He said that gives the Finance Department time to reconcile and record many more adjustments prior to them coming out, so that significantly reduced the number of adjustments they had, and the Finance Department did a good job on trying to close the books and records prior to them starting their fieldwork.

Mr. Kleger said question 5 states there were a lot of adjustments noticed to investment in fixed assets, and asked them to comment on specific entries 60, 61, and 62. He said these adjustments were specifically for Solid Waste, the Airport, and the Civic Center, and it is not unusual, especially with enterprise funds, to have to reclassify asset purchases from an expense item to a capital item. He said Council may recall that enterprise funds are treated more like a business, for example, with fixed assets that are capitalized and depreciated versus general fund accounting where they are, essentially, expensed. He clarified, those were not unusual entries at all.

Mr. Kleger said item 6 asked for an explanation of journal entry 70 for \$992,000 for the Health Department accounts payable. He said this was just a routine adjustment, and, actually, not an auditor's adjustment. He said they posted the adjustment provided to them by the County, and this is a relatively routine adjustment because often times invoices are delayed, or there are payables that come in subsequent to year-end that have to be recorded well after year-end, so it is not unusual to see that happen.

Mr. Kleger said question number 7 was to explain the Wyn case reserve adjustment for \$617,000, its impact on the County's financials, and who made the calculations. He said the Wyn case adjustments are determined by the State based on amended tax returns that have been filed by taxpayers, and they actually provide that calculation to the County in the amount that should be in the reserve. He said it did go up significantly. He said they had \$238,000 the previous year, and they had to make an adjustment

for another \$617,000 bringing it to \$855,000 reserve balance as of June 30, 2017. He said, as far as the impact on the financial statements, essentially, that \$600,000 comes out of unassigned or available fund balance and goes into an assigned fund balance account, so, basically, that does get pulled out from their available fund balance.

Mr. Kleger said the final question they had was that there were numerous adjustments related to Airport grants, and they were asked to comment on adjustment entries 115 and 119. He said adjustment entry 115 was related to removing a portion of the grants that related to the County and not the Airport. He said, generally, if they receive one large grant, some of it is Airport related, and some of it is County related, so that was just a reclassification entry to the County funds. He said, in reference to adjustment 119, during their testing for grants for the Airport, they noticed there should have been some receivables that were not recorded that they subsequently picked up with adjustment entry 119 in an amount of about \$108,000.

Mr. Kleger said those were the comments and questions they had to follow up on, and he will be glad to respond to any of those, or address any questions Council may have. Mr. Joe Holloway asked if Mr. Kleger has any concerns related to the debt levels and the fund balance levels for the County as they relate to the statement "The Government Officers Finance Association recommends a minimum fund balance of 15 percent of general fund expenditures." He said, as of June 30, 2017, the County was double that amount. He then asked if there are any other agencies that reflect on that question, to which Mr. Kleger responded, he may be able to look at other Counties in the State, and they certainly can get information from the State. He said this is a nationwide statistical study that is done which they use, but they can get it by individual Counties that have the same information. Mr. Joe Holloway said he firmly believes in a nice fund balance, to which Mr. Kleger responded, as he mentioned, that is a minimum recommendation, so, obviously, every municipal local government is going to be different as far as what they determine is a needed fund balance, but that is a minimum. He clarified, it is not saying that should be their goal as a balance. Mr. Joe Holloway said the problem they run into when they have a nice fund balance is that some people want them to spend it. He then asked Mrs. Hurley if she could check with MACO to find out what is normal, to which Mrs. Hurley responded, she can look into that. Mr. Kleger said that information is very easily available.

Mr. Cannon said his question relates more to layman's terms on the first question in reference to Public Works where they said inventory as of June 30, 2017 was rolled back and adjusted for reports of materials used. He then asked for clarification on the meaning of that, to which Mr. Kleger responded, the inventory was done subsequent to year-end, so items were, obviously, purchased and used beyond June 30th, so they had to have a cutoff point. He said, whatever that was, and he is thinking it was somewhere in the first quarter of the year, a count was done. He said then they had to go back and take items purchased subsequent to year-end and subtract from that number because there were items used during that timeframe. He said, basically, it is just a matter of trying to account for what happened to those goods in the three months subsequent to when they should have done the physical count. He said it is an estimate, and is not going to be an exact number, but is something they felt was reasonable at that time, and it was not like it was nine months or a year later they were trying to do it, but a couple of months after year-end, so it was not real hard to do a rollback test on that. Mr. Cannon asked if there was a large difference, to which Mr. Kleger responded, no, it was not. He said he does not have the specific number with him, but it was not a big difference.

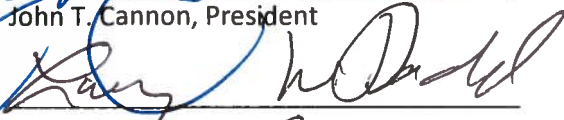
Mr. Cannon said his other question is in reference to number 8 regarding the Airport grants, which is entry number 119. He then asked, when they say various grant receivables need to be recorded, what


exactly was that particular situation, to which Mr. Kleger responded, he does not know the specifics as it is a little old at this point, but he can tell Mr. Cannon what generally would happen. He said they would test grant receipts subsequent to year-end and determine whether that should have been recorded as a receivable at year-end, and that is how this particular item came up. He said, again, there is a lot of grant money that runs through there, particularly at the Airport, and \$108,000 is not a terribly large amount. He said the reason this comes up is because they do subsequent receipt collections after year-end to determine whether they should have been a receivable at year-end or not, and that is how that particular item came up. Mr. Cannon asked, whatever the shortcomings were, has that been addressed, to which Mr. Kleger responded, yes.

Mr. Roser said, as far as the inventory goes, he does have an update. He said he has not had a chance to write the memo, but they had a meeting with the folks out at the Roads Division last week, and they are updating their new software. He said they are still running parallel systems at this point, but they are confident they will have everything up and running in the new inventory system, which is cloud-based, by the end of the fiscal year. He said they are monitoring that, looking forward to it, and have offered to help with the count.


Mr. Kleger said they will soon be doing some planning, obviously, for the upcoming audit, and they will involve Council on what they are planning on doing for the current year. There was no further discussion.

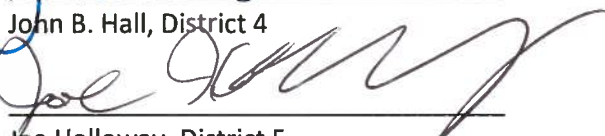

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