

AUDIT SERVICES OVERSIGHT COMMITTEE
Monday, April 25th, 2022
Virtual Meeting via Zoom 3:30 P.M.

The Audit Services Oversight Committee met at the above date and time with the following members present: Chair-Nick Long, Resident Member Matthew Ruterbories, Mayor Elaine O’Neal, Council Member Jillian Johnson, Council Member DeDreana Freeman.

Also present: Wanda S. Page, City Manager; Bertha T. Johnson, Deputy City Manager; Tim Flora, Director, Finance; Andre Pettigrew, Director, Office of Economic and Workforce Development (OEWD), Keith Chadwell, Deputy City Manager; Bo Ferguson, Deputy City Manager, Edward Nixon, Fiscal Manager, OEWD; Dr. Germaine F. Brewington, Director, Audit Services Department; the Audit Services Department Staff; and other guests.

Chair, Nick Long, called the meeting to order at 3:30 p.m.

SUBJECT: APPROVAL OF MINUTES – March 28th, 2022

Motion was made and it was properly seconded to approve the minutes of the March 28th, 2022 Audit Services Oversight Committee meeting.

The motion passed unanimously.

SUBJECT: ADJUSTMENTS TO AGENDA

There were no adjustments to the agenda.

SUBJECT: INTERNAL AUDIT WEEK ANNOUNCEMENTS

Dr. Germaine Brewington, Director of the Audit Services Department invited all ASOC members to the Department’s Internal Audit Week events May 9th through May 13th.

SUBJECT: ECONOMIC INCENTIVES PERFORMANCE AUDIT APRIL 2022

Dr. Germaine Brewington, Director of the Audit Services Department gave a PowerPoint presentation on the Economic Incentives Performance Audit April 2022. Dr. Brewington discussed the objectives of the audit: 1) to ensure the Office of Economic and Workforce Development (OWED) staff monitored recipients’ compliance with the terms and conditions of their incentive awards prior to issuing incentive payments; and 2) to review the strategy used by the Office of Economic and Workforce Development to meet its mission of economic growth.

Overall, OEWD staff are monitoring each recipient's compliance with the terms and conditions of its incentive awards before issuing payment. Resolution #9890 that governs awarding of economic incentives, was approved by Council on April 21, 2014 and has not been reviewed since 2014. At present the Department is not tracking performance measures to evaluate whether the overall program goals are being met.

Finding 1: Resolution #9890 was approved by Council on April 21, 2014 and has not been reviewed.

Finding 2: OEWD staff do not evaluate on behalf of Durham residents, the overall and aggregate effectiveness of the incentives awarded.

Recommendation 1 (Management concurred)

The OEWD staff should review Resolution #9890 and determine if any revisions are required.

Value Added: *Risk Reduction; Compliance*

Recommendation 2 (Management Concurred)

The OEWD staff should evaluate the overall effectiveness of incentives awarded. The Department should track performance metrics related to economic incentives.

Value Added: *Risk Reduction*

Questions/Comments:

Questions by ASOC members:

Mayor O'Neil asked if she could be provided with a copy of the presentation since she missed a portion of the presentation. Dr. Germaine Brewington stated she would provide her a copy but also reviewed the objections and findings for Mayor O'Neil.

Resident Member Matthew Ruterbories asked with regards to Recommendation One- the review and revision of Resolution # 9890, what would the process look like? Would this be something City Council would immediately take up or should the OWED Department review the Resolution and see if there are any necessary recommendations that need to be executed?

Dr. Brewington introduced Director Andre Pettigrew, Director for OEWD to address the question.

Director Pettigrew first thanked Dr. Brewington and Assistant Director Sonal Patel and the Audit Department staff for the good work they did working with his team. Director Pettigrew stated that he and the Department staff do concur that Resolution #9890 is a very important Resolution for the City. It was enacted before he began working for the City. In terms of how any changes will be initiated, Director Pettigrew said it will begin with the Department. The process will

require OEWD to really take a look at the existing agreements and doing an overall assessment of how well the Department and the City have done in terms of attracting capital investment and creating jobs and increasing the tax base. Director Pettigrew said the staff have the numbers for each individual contract because any incentive agreement has to be pre-approved by City Council before any steps can take place. With regard to Recommendation Two, Director Pettigrew stated that staff have not collected this information and examined it in the aggregate. He said staff are monitoring each individual performance contract to ensure that each individual agreement/developer or business owner is meeting individual goals. He concurred that staff have not gone to the next level of synthesizing the contract information in the aggregate to provide a macro view. That is what he and staff will do as part of their assessment of the current Resolution.

City Manager Wanda Page stated each one of these recommendation responses comes with a concurrence or partial concurrence or a does not concur. When it comes with concurrence as this response did, the next step is to give a plan and a timeline for implementation. The Department will initiate the process with a timeline for this review that is part of the response and you will as the Audit Services Oversight Committee have updates on how the work is coming. Management has agreed with the Auditor and her team, and we will start doing that work.

Resident member Mathew Ruterbories thanked everyone for walking him through the next steps. He asked additionally, with regard to the incentive agreements that the City enters into, can he get an idea of what the disbursement milestones look like? What are the actual requirements that need to be met and verified and documented prior to disbursements being made; and what sorts of documents are reviewed?

Director Pettigrew stated each incentive is a separate agreement, so the requirements are specific on a case by case basis to each agreement. But within each of those cases, the typical reporting requirements include verification of capital investment. If the incentive recipient is requesting an incentive around a building or some construction, the documentation would focus on as an example, participation rates by local small businesses in that construction. Organizations submit quarterly reports. They are attesting to their investment, construction subcontracting as well as employment of Durham residents and to the accuracy of the information they are supposed to submit. They are required to post their jobs with the NC Works (statewide system for employment). Through those postings we also get the number of hires as it relates to these activities. We do a review based on this information. Based on that information, it is determined that they met the requirements and a payment is made. As Dr. Brewington stated these payments are over the time schedule agreed to in the incentive agreement.

Resident member Matthew Ruterbories stated it sounds like the Department has great infrastructure to make sure the requirements are being met and verified. He had no further question.

Chairman Long stated his question had been answered with the response provided by City Manager Page.

SUBJECT: FY 2022-2023 ANNUAL AUDIT PLAN

Dr. Brewington discussed the Fiscal Year Annual Audit Plan development process that the Audit Department staff used to develop the Annual Audit Plan. She showed an example of the spreadsheet and the scale of how Audit staff came up with their net scores. There were 77 items on the spreadsheet this year. The scale looked at different factors- the likelihood of occurrence and the impact of occurrence or breakdown in controls. The impact categories made up 50 percent of the total score, and the likelihood factors made up 50 percent of the total score. The scale was one to five, with one representing a low risk of negative impact and five representing a high risk of negative impact if controls were not sufficient. This particular template is used by NC State agencies, and other auditors in local government in trying to assess risks. Audit staff individually ranked all 77 items across all categories with scores of one to five. Once that step was completed, Audit staff came together as a team to evaluate the list of 77 audit areas. There were some outliers, and staff leaned into those specific areas with each team member to understand that persons thought process for rating the audit area as they did. After much discussion the team came to a consensus of topics for the FY23 Annual Audit Plan. The list was sorted based on scores with the topics that received the highest scores ranked first. That ranking was distributed to the ASOC members. Audit staff also compared those items that ranked in the top 15, to the City's ERM (risk factors). Finally, Dr. Brewington discussed the proposed list with the City Manager to keep her apprised of the progress of the Plan development. The City Manager did not and has never tried to influence the work direction of the independent Audit function.

Dr. Brewington also stated that the leadership of the Department decided to change the target number of audits the staff will complete in a year. The goal has arbitrarily been set at completing 10 engagements per fiscal year. The driver for the audit plan engagement completion goal going forward will be the scope of the engagements. The more involved the scope, the longer the engagements take. The goal is to be productive but also thorough in the work that is performed. Audit staff feel that eight audits per fiscal year, which is what staff have been completing over the past 3 years is a good benchmark for going forward. Staff will always recommend more than eight engagements; but the additional engagements will be proposed for the sake of work continuity in the event a department is not able to accommodate the audit staff, the staff can move to a different engagement without having to come back to the Committee for approval of a different plan. It takes about three months' minimum start to finish to do any audit. Audit staff fully expect to meet or exceed a goal of eight engagements per fiscal year.

SUBJECT: QUARTERLY REPORTS

Dr. Brewington discussed the FY22 Q3 Audit Recommendations Quarterly Report. Dr. Brewington reiterated that as Madam City Manager Page stated, whenever the departments concur with a recommendation, they are agreeing to implement their plan for that recommendation on the time table proposed. This Report is the follow up for the recommendations still open for the third quarter. There were 24 recommendations that were open as of the end of March, three recommendations were closed during the third quarter and 21 are still open. The 21 open recommendations are across eight audits. Seven recommendations are

from FY2021 and fourteen recommendations are from FY2022. The departments are working diligently on getting these recommendations implemented.

Dr. Brewington then presented the Fraud, Waste and Abuse Report for the third quarter. There were six allegations received by the Department; two of the six cases were investigated but neither was substantiated. Three cases were referred out, two were investigated and one was a consultation.

OTHER BUSINESS

There was no other business to discuss.

Dr. Brewington reminded members that the May meeting was cancelled and reminded committee members that they needed to form a Nominating Committee to nominate officers for the next fiscal year.

The May meeting was cancelled. The next meeting is scheduled for June 13th, 2022. The meeting will begin at 3:30 p.m. and it will be virtual.

Chair Nick Long adjourned the meeting at 4:15pm

Respectfully submitted,

Francisca Fabian