

CUMBERLAND COUNTY FINANCE COMMITTEE
COURTHOUSE, 117 DICK STREET, 5TH FLOOR, ROOM 564
JUNE 4, 2015 - 9:30 AM
MINUTES

MEMBERS PRESENT: Commissioner Marshall Faircloth, Chairman
 Commissioner Jeannette Council
 Commissioner Larry Lancaster

OTHER COMMISSIONERS

PRESENT: Commissioner Glenn Adams (departed 10:15 a.m.)
 Commissioner Kenneth Edge
 Commissioner Charles Evans (arrived 10:08 a.m.)

OTHERS:

Amy Cannon, County Manager
James Lawson, Deputy County Manager
Tracy Jackson, Assistant County Manager
Rick Moorefield, County Attorney
Vicki Evans, Finance Director
Tammy Gillis, Director of Internal Audit and Wellness
Sally Shutt, Governmental Affairs Officer
Rob Robinson, Alliance Behavioral Healthcare CEO
Kelly Goodfellow, Alliance Behavioral Healthcare CFO
Candice White, Clerk to the Board
Press

Commissioner Faircloth called the meeting to order.

1. APPROVAL OF MINUTES – MAY 7 , 2015 REGULAR MEETING

MOTION: Commissioner Lancaster moved to approve the May 7, 2015 meeting minutes.

SECOND: Commissioner Council

VOTE: UNANIMOUS (3-0)

2. CONSIDERATION OF INTERNAL AUDIT AND FINANCE/AUDIT COMMITTEE
 CHARTERS

BACKGROUND:

At the April 2, 2015 Finance Committee meeting, recent changes to the Generally Accepted Auditing Standards (GAAS) and their implications were discussed. In summary of that meeting, the County is no longer allowed to provide assistance to the external auditor by using County internal audit staff unless structure changes are made within the County.

The heart of the changes needed is designed to insure the internal audit staff maintain independence and objectivity and are free from interference by any element in the organization.

To further insure this change, the internal audit staff should have direct access to the governing body. In this case the Finance Committee of the Board of Commissioners is asked to oversee the system of internal audit.

While the internal auditor has historically performed independently and objectively, the approval of an Internal Audit Charter as well as a Finance Committee Charter will solidify the County's commitment to the internal audit process and provide assurance to both internal and external parties that our internal audit program is one of quality and independence. Both proposed charters are included for your review.

For your consideration, the following are highlights of the charters:

Finance Committee Charter:

- Purpose – assist the Board of Commissioners in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process and monitoring compliance with laws and regulations
- Authority of the committee – conduct or authorize investigations in to any matters within its scope of responsibility
- Responsibilities –
 - Financial statement review
 - Review audit results
 - Monitor County's internal control system
 - Internal audit – monitor effectiveness of internal audit, review internal audit plans and reports
 - External audit – review performance, review coordination with internal audit, receive annual audit report
- Compliance – review any audit findings
- Reporting – report to the Board of County Commissioners at least once per year

Internal Audit Charter:

- Purpose – insure Internal Auditing endeavors are conducted in compliance with County objectives and policies as well as the government auditing standards applicable to financial and performance audits
- Authority – establishes the authority of the Internal Audit activity and insures that the Internal Auditor has full, free, and unrestricted access to the Finance Committee
- Establishes independence and objectivity as a requirement for Internal Audit
- Responsibilities –
 - Appraise effectiveness of financial controls within the County
 - Evaluate sufficient adherence to policies, procedures, and compliance with governmental laws and regulations

- Ascertain quality of controls for safeguarding County assets
- Perform special reviews as requested
- Reporting – file a written report of each internal audit engagement with the Clerk to the Board of Commissioners and periodically report to the Finance Committee and Assistant County Manager

RECOMMENDATION/PROPOSED ACTION:

Staff recommends approving the Internal Audit Charter and the Finance Committee Charter.

**CUMBERLAND COUNTY
FINANCE (AUDIT) COMMITTEE CHARTER**

PURPOSE

To assist the Board of County Commissioners (BOCC) in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and the County’s process for monitoring compliance with laws and regulations and the code of conduct.

AUTHORITY

The finance committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

- Appoint, compensate, and oversee the work of any registered public accounting firm employed by the County.
- Resolve any disagreements between management and the auditor regarding financial reporting.
- Pre-approve all auditing services.
- Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
- Seek any information it requires from employees—all of whom are directed to cooperate with the committee's requests—or external parties.
- Meet with County management and staff, external auditors, or outside counsel, as necessary.

COMPOSITION

The Audit Committee will consist of the Finance Committee of the BOCC, all of which are Cumberland County Commissioners. The BOCC Chair will appoint the Finance Committee members and the Finance Committee will elect their chair.

Each committee member will be both independent and financially literate. At least one member shall be designated as the “financial expert,” as defined by applicable legislation and regulation.

MEETINGS

The Finance Committee will meet at least four times a year, with authority to convene additional meetings, as circumstances require. All committee members are expected to attend

each meeting. The committee will invite members of management, auditors, or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors (see below) and executive sessions. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes will be prepared.

RESPONSIBILITIES

The Finance Committee will carry out the following responsibilities:

Financial Statements

- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review with management and the external auditors all matters required to be communicated to the committee under generally accepted auditing *Standards*.
- Understand how management develops interim financial information and the nature and extent of internal and external auditor involvement.

Internal Control

- Consider the effectiveness of the County's internal control system, including information
- Understand the scope of internal and external auditors' review of internal control over financial reporting and obtain reports on significant findings and recommendations, together with management's responses.

Internal Audit

- Review with the County Manager, the Assistant County Manager, the Finance Director, and the chief audit executive about the charter, plans, activities, staffing, and organizational structure of the internal audit function.
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.
- On a regular basis, review internal audit reports and meet separately with the chief audit executive on an as needed basis to discuss any matters that the committee or internal audit believes should be discussed privately.

External Audit

- Review the external auditors' proposed audit scope and approach, including coordination of audit effort with internal audit.
- Review the performance of the external auditors, and exercise final approval on the appointment or discharge of the auditors.
- Review and confirm the independence of the external auditors by obtaining statements from the auditors on relationships between the auditors and the County, including non-audit services, and discussing the relationships with the auditors.
- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Compliance

- Review the findings of any examinations by regulatory agencies and any auditor observations.
- Obtain updates from management and County legal counsel regarding compliance matters on an as needed basis.

Reporting Responsibilities

- Report to the BOCC about committee activities, issues, and related recommendations as needed, but at a minimum, one time a year.
- Provide an open avenue of communication between internal audit, the external auditors, and the BOCC.
- Review any other reports the County issues that relate to committee responsibilities.

Other Responsibilities

- Perform other activities related to this charter as requested by the BCC.
- Institute and oversee special investigations as needed.
- Confirm annually that all responsibilities outlined in this charter have been carried out.
- Evaluate the committee's and individual members' performance on a regular basis.

CUMBERLAND COUNTY INTERNAL AUDIT CHARTER

PURPOSE

Internal Auditing is an independent appraisal activity established to conduct reviews of operations and procedures and to report findings and recommendations to the Cumberland County Board of Commissioners Finance Committee, the Cumberland County Manager, the Finance Director, and the department reviewed. All Internal Auditing endeavors are to be conducted in compliance with County objectives and policies as well as the government auditing standards applicable to financial and performance audits.

VALUES AND GUIDING PRINCIPLES

In delivering its services, the internal audit activity embraces the values of integrity, objectivity, confidentiality and competency, as identified by the Institute of Internal Auditors Code of Ethics. Additionally, anyone who is practicing internal auditing at Cumberland County will be a Certified Government Audit Professional within twelve months of employment by the Internal Audit Department. The internal audit activity also demonstrates Cumberland County's Core Values:

Professionalism

Respect

Integrity with accountability

Diversity

Excellent Customer Service

AUTHORITY

Internal Auditing reports to the Cumberland County Assistant County Manager for Finance and Administrative Services, but has full, free, and unrestricted access to the County's Finance

Committee. These reporting relationships ensure office independence, promote comprehensive audit coverage, and assure adequate consideration of audit recommendations.

Internal Audit personnel, in the performance of audits and with stringent accountabilities of safekeeping and confidentiality, will be granted unlimited accessibility to all County activities, records, property, and employees, except Official Personnel Files, which will be obtained through the County Manager. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

Internal Auditing is a function that has no direct authority over activities, which its personnel review. The performance of these reviews does not relieve management of any assigned responsibilities.

Objectivity is essential to the audit staff in the proper fulfillment of its duties. Performance of line responsibilities by internal auditors may compromise their objectivity. This practice will be limited and considered in personnel selection for audit assignments.

INDEPENDENCE AND OBJECTIVITY

The internal audit activity will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluation, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Chief Audit Executive will confirm to the Finance Committee, at least annually, the organizational independence of the internal audit activity.

RESPONSIBILITIES

The scope of Internal Auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the County's stated goals and objectives. To this end, Internal Auditing furnishes the Finance Committee and reviewed department with analysis, appraisals, recommendations, counsel, and information concerning the activities reviewed.

The fulfillment of this accountability is not confined to but includes:

- Appraising the effectiveness and application of administrative and financial controls and reliability of data that is developed within the County.

- Evaluating sufficiency of an adherence to plans, policies, procedures, and compliance with governmental laws and regulations.
- Ascertaining the adequacy of controls for safeguarding County assets and, when appropriate, verifying the existence of assets.
- Performing special reviews, requested by the County Manager, Assistant County Manager, Finance Director, or the Finance Committee.
- Conducting appraisals of effective and efficient use of County resources and making appropriate recommendations to the County Manager, Assistant County Manager, Finance Director, Finance Committee, and the department reviewed.
- Monitoring and evaluating governance processes.

REPORTING AND MONITORING

A written report will be prepared and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be filed with the Clerk to the Board of Commissioners. The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

The internal audit activity will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared. The Chief Audit Executive will periodically report to the Assistant County Manager and the Finance Committee on the internal audit activities. Reporting will include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the senior management or the Finance Committee.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Chief Audit Executive will communicate to senior management and the Finance Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

Melissa Cardinali, Assistant County Manager, reviewed the background information and recommendation as recorded above and referenced the Internal Audit Charter and the Finance Committee Charter also recorded above. Ms. Cardinali stated the charters are based on parameters and guidelines from the Institute of Internal Auditors (IIA). Ms. Cardinali stated

the charters were presented to Cherry Bekaert LLC and following their review, a few tweaks were made. Ms. Cardinali stated the charters are in compliance in the way in which they are structured and beginning July 1, internal audit staff will provide a completely independent internal audit function.

Commissioner Faircloth asked whether separate meetings would be held. Ms. Cardinali stated internal audit activities would fall under the Finance Committee as an additional function. Rick Moorefield, County Attorney, stated separate meetings could be held depending on how much is presented and the extent of what is presented. Ms. Cardinali stated proposed under the charter is that any reports by internal audit staff would automatically be filed with the Clerk to the Board so the Board of Commissioners has free and full access to those reports and any records needed to conduct any audit.

Commissioner Faircloth inquired regarding qualifications for expertise on the committee. Ms. Cardinali stated the current chair of the Finance Committee would qualify and one of the foundations under the guidelines is anyone with years of experience dealing with government would qualify.

Additional questions followed. Ms. Cannon stated the County can audit any community organization with whom it has a contract; without a contract, the County has no right to inspect any organization's books. Ms. Cannon stated internal audit staff have the right to review or audit any County department. Ms. Cannon also explained the overlap between audit staff and the committee for Enterprise Solutions Division (ESD) and stated the Director of Internal Audit will be a part of the ESD committee.

MOTION: Commissioner Council moved to approve the Internal Audit Charter and the Finance Committee Charter.

SECOND: Commissioner Lancaster

VOTE: UNANIMOUS (3-0)

3. CONSIDERATION OF BUDGET REVISIONS FOR THE INCURRED BUT NOT REPORTED (IBNR) YEAR END ENTRY

BACKGROUND:

During the FY16 budget planning session held in March, Mark III presented information regarding health insurance cost increases including an unexpected rise in current year claims of 20%. In addition, finance staff have been monitoring active employee and retiree health insurance claims throughout the fiscal year and the trend does show that claims costs have increased. By June 30 of each fiscal year *the County must estimate the dollar amount of claims for services that have been rendered but not yet billed to BCBS for the fiscal year, known as IBNR-incurred but not reported.* The estimate of IBNR is based on prior year data combined with current year trend. This fiscal year, the expenditure budget is not enough to cover the actual claims paid and the IBNR, which is recorded in our books through a journal entry. The combined projected budget shortfall is \$2,300,000. Of that shortfall, the estimated IBNR amount totals \$2,135,000.

Budget revisions have been prepared to request the movement of general funds totaling \$2,300,000 into the active employee health insurance fund and the retiree health insurance fund to cover the projected shortfall at year-end. It is anticipated that the IBNR portion of the total will be put back into the general fund (by reversing the journal entry) during the second quarter of FY16. At that time a budget revision will be prepared. The net impact to the general fund is a one-time projection of \$165,000.

RECOMMENDATION/PROPOSED ACTION:

Consensus to move forward to the next scheduled meeting of the Board of County Commissioners and approve the budget revisions to move funds from the general fund to the health insurance funds.

Vicki Evans, Finance Director, introduced this item and reviewed the background information and recommendation as recorded above. Ms. Cannon explained the \$165,000 is the projected shortfall for this fiscal year. Commissioner Edge asked how this shortfall compared to last year. Ms. Evans stated last year was flat with no shortfall but this year healthcare costs are up. Ms. Cannon responded to additional questions and stated with the clinic opening and with the enhanced emphasis on the wellness plan, the hope is that the County will see some positive changes in the upcoming fiscal year. Ms. Cannon stated the County's increases have been minor compared to other local governments who have seen 14% to 20% increases and the hope is the County will have a positive impact on lifestyle changes with employees included in the health plan. Ms. Cannon stated Mark III will continue to evaluate the changes and other techniques will be employed such as a spouse and dependent eligibility audit to attempt to save money and preserve the plan. Ms. Cannon stated she hopes that the strategies being employed will keep the County under budget in the upcoming year.

MOTION: Commissioner Lancaster moved to approve the budget revisions to move funds from the general fund to the health insurance funds.

SECOND: Commissioner Council

VOTE: UNANIMOUS (3-0)

4. CONSIDERATION OF FUNDING AGREEMENTS WITH ALLIANCE BEHAVIORAL HEALTHCARE

BACKGROUND:

Cumberland County currently has two funding agreements with Alliance Behavioral Health Care (Alliance), each providing \$2.4 million in County funding, for a total of \$4.8 million in County dollars. One agreement is a three-year tri-party contract between the County, Alliance and the Cape Fear Valley Medical Center (CFVMC) that allocates funding for services provided by CFVMC; this contract expires June 30, 2016. The second agreement is a one-year two-party contract between the County and Alliance that allocates funding for all other behavioral health provider services in Cumberland County; this contract is set to expire June 30, 2015.

During Alliance's fiscal year 2014 audit, unspent County funds were recorded as unearned revenue (a liability account) based on the contract language. This caused a drastic decrease in

their current ratio which is used to determine their stability across the state against all other managed care organizations (MCOs). Based on a recommendation by their auditors, Alliance has requested a change in the contract language for fiscal year 2015 and forward. The proposed language has been changed to reflect any unspent County funds to be recognized as restricted fund balance instead of unearned revenue and allows that fund balance to be treated as income in the next fiscal year and to be utilized for services for Cumberland County residents. They are seeking approval no later than June 30, 2015 so that this change can be applied in this year's audit.

In addition, the Alliance requested a 1% increase to the \$4.8 million allocation (or \$48,000) to support the administrative efforts required to manage these funds (see attached). During merger discussions, it was understood that the County's funding was to be allocated to support services and that the administration of these funds would be the responsibility of the Alliance, which is also supported by administrative funds provided through Medicaid and State funds. In their request, the Alliance indicated that they are no longer able to sustain the costs of administering County services and has therefore made this request of all its County partners which includes Cumberland, Durham and Wake.

RECOMMENDATION/PROPOSED ACTION:

County Management recommends that:

- 1) the following amendment to paragraph 3 of the 2015 Funding Agreement (indicated by underlining):

Pursuant to N.C.G.S. 122C-115, the County agrees to allocate and pay to Alliance Two Million Four Hundred Thousand Dollars (\$2,400,000.00) for the provision of mental health, intellectual/developmental disability and substance abuse services to eligible Cumberland residents served by Alliance. The County shall pay to Alliance through a wire transfer an amount equal to one-quarter the Annual Allocation beginning on July 2, 2014, and quarterly thereafter. Any Annual Allocation funds left unspent at the end of the fiscal year shall be applied to the next year's annual allocation. Alliance will recognize funding as income in the year received and any unspent funding from the current year and prior years will be recognized as income in the current year. Cumberland County funds held by Alliance on June 30, shall be held by Alliance in a restricted fund balance for the purchase of services for Cumberland County residents in future fiscal years, unless otherwise directed in writing by the County Manager.

- 2) the agreement be renewed for one year from July 1, 2015 to June 30, 2016.
- 3) consideration be given to authorizing the Alliance to utilize 1% of its current \$2.4 million allocation of Cumberland County funding to cover administrative costs.

James Lawson, Deputy County Manager, recognized Rob Robinson, Alliance Behavioral Healthcare CEO, and Kelly Goodfellow, Alliance Behavioral Healthcare CFO, and reviewed the background information and recommendations as recorded above.

Mr. Robinson explained the Alliance has not been able to successfully manage county dollars due to the uniqueness of each county. Mr. Robinson stated the Alliance is primarily funded by Medicaid or federal dollars and Medicaid dollars cannot be used to support the oversight and management of county dollars. Mr. Robinson stated the 1% will cover a couple of admin positions and the Alliance will absorb the remaining costs this year in order to get the oversight of services in Cumberland County started. Questions followed. Mr. Robinson stated the Alliance has received favorable responses from Durham and Wake counties.

Commissioner Edge stated as a member of the Alliance Board of Directors, he understands why the Alliance is requesting the 1% out of the County's allocation of \$4.8 million which means that \$48,000 will not be available for services to clients in Cumberland County. Commissioner Edge stated this should not have much of an impact on services at this time because many of the clients that the Alliance serves are paid through Medicaid or state dollars. Commissioner Edge stated he recommends approving the 1% of \$4.8 million or designating \$48,000 for admin services. Additional questions followed.

MOTION: Commissioner Lancaster move to approve the amendment to paragraph 3 of the 2015 Funding Agreement.

SECOND: Commissioner Council

VOTE: UNANIMOUS (3-0)

MOTION: Commissioner Council moved that the agreement be renewed for one year from July 1, 2015 to June 30, 2016.

SECOND: Commissioner Lancaster

VOTE: UNANIMOUS (3-0)

MOTION: Commissioner Council moved to authorize the Alliance to utilize 1% of its current allocation of Cumberland County funding to cover administrative costs.

SECOND: Commissioner Lancaster

VOTE: UNANIMOUS (3-0)

5. MONTHLY FINANCIAL REPORT

BACKGROUND:

The financial report is included as of April 30, 2015. Highlights include:

- Revenues
 - Current real and personal property taxes continue at a trend similar to past years with maximum collections occurring prior to the month of April.
 - Motor vehicle tax revenues continue to appear strong this year. Nine collection months are reflected in the April financials.
 - Sales tax (April report reflects seven collection months) collections show slight growth compared to last fiscal year.

- Expenditures
 - Expenditures remain in line with budget and show no unusual patterns.

- Crown center expense summary/prepared food and beverage and motel tax
 - A combined year-to-date summary is provided.
 - Prepared food and beverage and motel tax summary included.

RECOMMENDATION/PROPOSED ACTION:

No action needed – for information purposes only.

Ms. Evans reviewed highlights of the financial report as of April 30 as recorded above. Commissioner Faircloth inquired whether the state charged the County to administer the Tax & Tag program. Ms. Cannon responded in the affirmative and stated the charges vary depending on the payment method and the state's charge is higher than the amount the County charges municipalities to collect their property taxes. Commissioner Faircloth asked that the charges be kept in mind for the next meeting of the Finance Committee.

6. OTHER MATTERS OF BUSINESS

There were no other matters of business.

There being no further business, the meeting adjourned at 10:19 a.m.