

# **Clackamas County Audit Committee - Minutes**

**August 12, 2024, 2:00PM (recorded<sup>1</sup>)**

## **Committee Present:**

Tootie Smith, Clackamas County Chair  
Rod Cook, Director of Health, Housing and Human Services  
Christina McMahan, Director of Juvenile Services  
Josh Kam, Public Member  
Scott Johnson, Public Member  
Michael Osborne, Public Member  
Wendy Rader, Public Member, County Budget Committee Liaison

## **Committee Absent:**

Ben West, Clackamas County Commissioner  
Jane Vetto, Legal Counsel

## **Committee Staff:**

Elizabeth Comfort Director, Finance  
Patrick Williams, Deputy Finance Director  
Sue Unger, Accounting Manager  
Bouavieng Bounnam, Sr. Grant Accountant

## **Additional**

**Attendees:** Ashley Osten, Moss Adams  
Kevin Mullerleile, Moss Adams  
Ben Tellin, Moss Adams

**Meeting began at approximately 2:01PM**

## ***Introductions***

Chair Smith opened the meeting and Ms. Comfort introduced attendees.

## ***Approval of the Previous Meeting Minutes***

- August 9, 2023 (included in meeting invitation & sent out with the agenda)

Chair Smith moved to approve the minutes. Seconded by Mr. Osborne, the motion was approved with 4 out of 7 voting members present at the time it was presented for approval and 4 in favor. There wasn't a quorum so the minutes will have to be presented for approval at the next meeting.

## **FY 2023 Audit Results – Moss Adams**

Ms. Comfort asked Ms. Osten to share her prepared presentation for the FY23 audit results. Ms. Osten presented and introduced her team. A clean unmodified opinion was issued on the County financial statements. There was one significant deficiency in internal controls related to the Housing Authority of Clackamas County which will be discussed later. There was one excess expenditure over appropriations in the County School Fund which did not result in a finding.

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There was one significant deficiency in internal controls over financial reporting in the Single Audit with no compliance findings. One significant deficiency in internal controls over the reporting compliance requirement for COVID-19 – Health Center Program Cluster with no compliance findings. The County is required to file a report called FFR report and of the three tested none were filed timely or there was no record of a report being filed timely and a recommendation to maintain those records going forward.

They looked at the internal control environment including all of the items listed on the presentation slide as well as walk throughs with management to make sure they understood the control in place and operating effectiveness testing to confirm they are operating effectively. They also looked at net pension liability because it is a very large liability on the County's books to make sure recognition of that liability is appropriate and that contributions made by the County are correct. Also, net OPEB liability, bond activity, capital assets to make sure recognitions of those liabilities are appropriate and contributions are correct.

They looked at revenue recognition to test that they were recorded in a timely and appropriate manner and collectability of receivables and any necessary allowances were also recorded correctly. They also considered whether the net position was classified correctly between unrestricted, restricted and net investment in capital assets.

For the Single Audit they tested 5 major programs totaling \$63.7 million in expenditures. These programs are the COVID-19 – Coronavirus State and Local Fiscal Recover Funds, COVID-19 – Emergency Rental Assistance Program, COVID-19 – Health Center Program Cluster, where the significant deficiency was found, Highway Planning and Construction and Federal Lands Access Program.

Mr. Mullerleile went through the required communications. The initial plan for the FY22-23 audit was to have it completed by March 31, 2024, however the Housing Authority experienced delays for several reasons. They had a finance manager vacancy where the incumbent was the driver of the audit in previous years. There were also issues with implementing a new accounting system. This caused the HACC audit to be issued on April 30, 2024, and the final County audit being issued May 16, 2024, with the State's 2<sup>nd</sup> extension approved. The Single Audit was also completed May 16, 2024.

There was one new accounting standard that takes a lot of time for local governments to implement. This is state number 96 on subscription based IT arrangements. Management has selected and applied significant accounting policies appropriately and consistently with those of the previous year.

Significant management estimates impacting the financial statements include useful lives of capital assets, allowances for doubtful accounts, and estimated liabilities for claims and judgments, OPEB and PERS. Estimates were deemed reasonable inputs and assumptions and were consistently applied.

No difficulties in performing the audit.

There were no material errors but there was one error that needs to be brought to attention. The County didn't report certain investments at fair value as of June 30, 2023. Had this been corrected, investments and unrealized earnings on investments would decrease the

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governmental activities by \$9.2 million. It wasn't considered material so the County wasn't required to make that adjustment.

No instances of fraud to report.

Ms. Comfort commented the findings had been brought to the BCC with solutions and next steps, and have been submitted to the State. With the investment this is an annual look and because the books were closed so late it was recommended to us by the auditors that an adjustment not be made to the prior year. That is a one time look at investments. We anticipate making this adjustment before end of next year.

Mr. Tellin spoke about the findings in the IT audit and are as of the end of 2023 and discussions have been had with IT management and those are still being discussed and implemented. Significant testing was completed between August 21, 2023 and Sept 15, 2023 with the exit meeting occurring April 2023 and the debrief to management with findings included on May 3<sup>rd</sup> 2024.

Finance is working with Technology Services and Human Resources and they are updating and making corrections and improving processes to all of the identified issue as swiftly as they can.

### **Audit Planning for FY 2023-2024**

Ms. Osten moved on to audit planning for 2023-2024. The audit process looks at internal controls, analytical procedures and substantive procedures.

We do spend the majority of our time looking at revenue recognition. That's an inherent fraud risk for us as auditors. We want to make sure that the revenue that is recognized is in the correct period that it's recorded at the right dollar amount, and that the valuation of receivables is appropriate. If you need to record an allowance that it's recorded appropriately.

The County has quite a bit of cash and investments, so we're going to confirm those account balances. Make sure that they're valued appropriately and disclosed appropriately as well on this in the financial statements. Same thing with capital assets. You have quite a few capital assets. You have a big construction project going on with the courthouse. We'll look at the existence. Does the fixed asset exist? Did the county perform an inventory observation? But also is it valued correctly and is depreciation calculated appropriately? Are those assets that were purchased during me or recorded at cost.

Financial closure, reporting just how you have. The County is complex. You have several component units that roll up into your financial statements. We want to be sure that your financial closing reporting process is secure, that the reconciliations are performed timely, that the sign offs are there, that all of the amounts that are rolling up into the county's final act for are correct and appropriate.

Ms. Comfort pointed out that we do have a complex County and we do have several component units. Is it correct that Clackamas County has the most component units that Moss Adams handles in the State of Oregon? Ms. Osten stated she was unsure if it was at the firm or even the State but that the County has the most in her clients. Ms. Comfort stated that each of the component units has to be completed and finalized before Clackamas can finalize their audit.

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Mr. Mullerleile added that he works with several Counties that have small component units like SD5 and Library District which is pretty common. What is uncommon is the Housing Authority, Water Environment Services, Parks and Rec, and Development Agency. Those are the big engagements. Ms. Comfort agreed. Ms. Osten added that this is why financial closing reporting is a significant risk, and one that we focus on.

Ms. Osten continued to financial closing, reporting, pension and OPEB liabilities. Those are large liabilities on your county's financial statements, making sure that they're recorded appropriately in accordance with those actuarial evaluations, and then, of course, compliance with Federal laws and regulations and Oregon minimum standards that's really referring to the single audit procedures. Making sure that all those direct and material compliance requirements are followed, and then that you have all of the controls in place, and that you're compliant with all of the related Oregon minimum standards as well. We are required to consider that fraud may exist in your accounts and transaction.

Ms. Comfort thanked Chair Smith for joining the meeting and recognized that she had to leave but that they would continue with the presentation.

Ms. Osten continued the presentation. Moss Adams is required to consider the fraud may exist. In order to identify those fraud related risks during planning we brainstorm with the engagement team. We meet with the county's internal auditor to see what they have been up to and see what different audits they have done throughout the county and what the results are. We conduct personnel interviews with various individuals throughout the county. We also try to not only focus on those that are within the accounting department, but also those that are outside of the accounting department as well. Just to understand what their views of risk are on fraud, and if they're aware of any fraud, if they know about any unusual transactions, those types of things.

We document our understanding of internal control, and we also consider any unusual or unexpected relationships that are identified in planning. And then, when we perform the audit, we are required to perform journal entry testing. We look at large debits and revenue accounts, large credits and expense accounts, and just large journal entries overall. We use a software for that procedure which is called Mind Bridge. That helps us evaluate high risk journal entries. We do also just look at your accounting policies. Were there any changes? Were there any unusual transactions during the year? What about those management estimates that management could have some bias over? In general we're evaluating those significant accounting transactions, and if the rationale is appropriate.

Ms. Osten turned it over to Mr. Teller to discuss the IT portion of the audit for 2024. The scope and areas of focus are largely similar to years past, with one significant addition of focus being the aforementioned segregation of duties within PeopleSoft human capital management largely stemming from the finding that we had noted there last year and the area of emphasis that management wanted us to take. Recognizing the importance of it and the risk that it presents to the audit. The rest of the areas that we focus on are largely the same change management, logical security and access computer operations. We usually spend a small amount of time discussing the County's efforts around any cyber security related matters as well.

The systems that we consider for the audit. We've consulted with technology services already for the 2024 fiscal year, and those systems are the same still. Peoplesoft financials and PeopleSoft human capital management and Ascend which is the county's taxation and assessment system that they use in the Assessment & Taxation department. Those all impact the broader financial reporting for the county.

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As far as progress in our schedule, we completed our initial walkthroughs over the IT controls about a month ago. We are in the midst of our operating effectiveness testing and concluding on the controls that have been represented to us by management during those walkthroughs that we have performed already. While the exit meeting and debrief memo dates are to be determined. We are fairly confident that we're ahead of schedule, at least relative to prior years, just based on the progress that we've made to this point. We've had a greater emphasis of prioritization with our team and an easier time consolidating our resources to tackle the IT controls in a more efficient manner this year.

### **Audit Preparation Schedule**

Mr. Tellin spoke to the progress of the IT 2024 audit. As far as progress in our schedule, we completed our initial walkthroughs over the IT controls about a month ago. We are in the midst of our operating effectiveness testing and concluding on the controls that have been represented to us by management during those walkthroughs that we have performed already. While the exit meeting and debrief memo dates are to be determined. We are fairly confident that we're ahead of schedule, at least relative to prior years, just based on the progress that we've made to this point. We've had a greater emphasis of prioritization with our team and an easier time consolidating our resources to tackle the IT controls in a more efficient manner this year.

Mr. Mullerleile spoke to the audit field work timing for FY24. It started with Mr. Tellin and his team working on the IT audit procedures and then today's entrance meeting with the audit committee. Our year end testing will start with the smallest component units in mid September 2024 and run up all the way through just before Thanksgiving in November. This is when we're going to be focusing on the 8 component unit audits. We'll all have the holiday breaks and then the County is going to be providing the County's work papers and year-end balances for us at the 1st of January, and we'll get started January 12<sup>th</sup>. We think that'll run us through the end of that month. Then we'll turn our attention to the single audit. We hope to do some in January, but we have teams reserved to focus on that in February, because I think the big push is to focus on the financial statement audit. Then the single audit, which isn't due to the Fed until March 31<sup>st</sup>, can be the second priority. We will then figure out dates when to present the FY 24 audit results to the audit committee.

We'll be plan to start issuing audit reports around September 30<sup>th</sup> running all the way to December 19<sup>th</sup> right before holiday break is when we'll issue the 8 component units. Then the plan is to issue the County's ACFR audit by the end of February and the single audit by the end of March 2025. We've had several meetings with management on the key dates when things need to occur. So we feel good with these dates at this point in time.

Then just the last thing we wanted to touch on is some really some good news with accounting standards that will help everyone meet these timelines. There's not really a new accounting standard that is going to require significant time, like there's been the last 2 years with leases and SBITA's. This year, one new accounting standard on accounting changes and error corrections. It goes through the guidance and what disclosures need to occur if there's a change in accounting principle. County estimate change in the financial reporting entity. Also, if you have an error. The illustrations in the GASB statement do a really good job on showing what the disclosure needs to look like. In the past some governments would do a few sentences that definitely wasn't enough and some would put in some good tables. Everyone needs to use a table now to show what the change is to the financial statements since the prior year.

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Also, there are 2 new accounting, auditing standards that our team will be implementing. One on accounting estimates and disclosures, and another on understanding the entity and its environment and assessing the risk of material misstatements. This will be in the background for the County. This doesn't really create any new work for the county. It's just some additional documentation that we have. In fact, it's some documentation that we had already been doing. All auditors kind of need to get on the same page. I don't think it'll be anything that'll take additional time for the County to help us incorporate this year.

Mr. Mullerleile presented several resources and articles and alerts that are available throughout the year as well as Moss Adams contact information. He concluded Moss Adams presentation and prepared remarks and asked for any further questions regarding FY23 audit or FY24 audit plans.

Mr. Johnson remarked that the HACC audit seemed to be the biggest issue with timely completion of the FY23 audit and asked if there are any concerns about completing the FY24 audit on a more typical timeline. Ms. Comfort responded that she met with Rod Cook, our H3S Director, and Adam Brown. She noted that Rod Cook and Note that and then Christina McMahon, our Director for Juvenile Services, has joined us as well as Patrick Williams, our Finance Deputy Director, and then Chair Smith needed to step off early. Ms. Comfort continued to answer regarding timeliness in relation to HACC. She met with the H3S team and with the new Director for the Housing Authority, and they have a plan. They have a consultant also on board to help guide them, because it is a fairly new team, and they have the new software in place now, and they are very optimistic with their plan to implement and have all the needed requirements to meet the timeline for November 22<sup>nd</sup>, and I am working with them closely. I will be participating in a few of their weekly meetings because I've stressed that the milestones to be met dictate how well we'll be successful. They're very encouraging, and they are encouraged that this will be a good closing of fiscal year 24.

Mr. Johnson remarked that he is incredibly impressed with the reports and the quality. I know this is no small undertaking, but I just want to throw kudos out to management, and the auditors saying that they are wonderful reports and fun to read.

Ms. Comfort asked Mr. Cook if he had anything else to add to the answer as he attends as part of the committee but this is in regards to his department. Mr. Cook declined and said personnel changes have been made. That we're taking this very seriously. They have already set timelines with the new team and are working closely with Elizabeth, as she mentioned, and we have outside capacity to help as well. We think we've put everything to this that we can to lean in and get this done right this time. We're very optimistic. We're going to do it right this time.

Ms. Osten added that we're in pretty close contact with Elizabeth and her team. So we've been talking about the timeline pretty frequently, especially in advance of this presentation, to confirm that, not only will the little component units be ready, but also that the Housing Authority will be ready, and we plan to maintain pretty close contact between now and when field work is scheduled to start as well. Mr. Mullerleile states that he has a call tomorrow morning with HACC and that they are on track.

Ms. Comfort added that we have 4 component units that we are submitting the trial balances for this week and Sue and her team are managing that. So the County is in a good position on closing fiscal year 24 at this time.

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Mr. Kam thanked the Moss Adams team for all their hard work and congratulated Finance management for completing another audit year. He asked about new GFOA deadlines for applications for GFOA audit annual awards. Ms. Comfort asked Ms. Osten if she had any further information on this and that she had also heard that the GFOA was going to be firmer on their Dec. 31<sup>st</sup> deadline. Ms. Osten didn't have anything to add other than she hadn't heard that and that she couldn't imagine they would have such a hard line after just communicating it earlier this year. Mr. Mullerleile was at the GFOA conference and it was not mentioned and it is not listed on their policy website. Mr. Kam thanked them for the information.

Ms. Comfort asked if there were any other questions. Ms. Osten thanked management for a great partnership and she looks forward to kicking off FY24.

#### **Other Items**

Ms. Comfort opened the meeting up for any other issues. There were none. She thanked the members and adjourned the meeting.

**Meeting Adjourned at 2:52pm**

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