

## MINUTES – NOVEMBER 23, 2009

The Caswell County Board of Commissioners met in special session at the Historic Courthouse in Yanceyville, North Carolina at 10:00 a.m. on Monday, November 23, 2009. The purpose of the meeting was to meet with the County's auditors to discuss the 2008-2009 Fiscal Year Audit. Members present: Jeremiah Jefferies, Chairman, George W. Ward, Jr., Vice-Chairman, Erik D. Battle, Nathaniel Hall, and Gordon G. Satterfield. Absent: William E. Carter and Kenneth D. Travis. Also present: Kevin B. Howard, County Manager and Angela Evans representing The Caswell Messenger. Wanda P. Smith, Clerk to the Board, recorded the minutes.

### DISCUSSION OF 2008-2009 FISCAL YEAR AUDIT

Mr. James P. Winston, II and Ms. Jennifer T. Reese with Winston, Williams, Creech, Evans & Company, LLP came before the Board to discuss the 2008-2009 Fiscal Year Audit for the County.

Mr. Winston provided an overview of the audit completed for Caswell County for Fiscal Year 2008-2009. Mr. Winston reported that Caswell County has received an unqualified opinion on the June 30, 2009 financial statements.

Mr. Winston highlighted the following:

- Statement of Net Assets – Governmental Activities
- Statement of Net Assets – Business-Type Activities
- Statement of Net Assets – Primary Government
- Statement of Activities – Governmental Activities
- Statement of Activities – Business-Type Activities
- Statement of Activities – Total Primary Government
- Governmental Fund Revenues
- Governmental Fund Expenditures
- Proprietary Funds
- Fund Balance – All Governmental Funds
- Fund Balance – Other Governmental Funds
- Fund Balance – General Fund
- Unreserved Fund Balance – as a % of Expenditures
- Cash
- General Fund Revenues
- General Fund Expenditures
- Appropriated Fund Balance
- Adjusted Tax Levy
- Tax Collection Percentages
- Governmental Fund Debt

Ms. Jennifer Reese reviewed with the Board the Schedule of Findings and Questioned Costs. Ms. Reese noted that there were no major findings this year, but did include again that duties should be segregated in the Finance Office to provide reasonable assurance that transactions are handled appropriately. Ms. Reese added that it was also included that management staff should have adequate knowledge to be able to prepare the financial statements to ensure material errors are detected.

Ms. Reese reported that during their audit they became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. Ms. Reese stated that the following summarizes their comments and suggestions regarding those matters.

1) Social Services

Client files at Social Services need to be maintained with documentation that is in line with data entered on the day sheets.

Indirect costs charged on the 1571 need to be updated annually based on the actuarial report.

Child care workers need to verify that all Child Care Voucher forms are date stamped upon receipt and are returned within the allotted 30 day period.

All child care documentation in the file should be reviewed for accuracy and completeness.

Attendance records need to be reviewed for proper attendance in compliance with payments made to the provider.

2. GASB Statement No. 45 "Accounting and Financing Reporting by Employers for Post-employment Benefits other than Pensions" became effective in the current fiscal year for Caswell County. An additional liability is now recognized on the Statement of Net Assets for this obligation.
3. The County should continue to try to separate duties as much as possible. The loss of the Human Resources position has resulted in a lack of separation of duties in areas in the Finance Department. It is very important that duties be separated appropriately within all county offices.
4. In March, 2009, the Governmental Accounting Standards Board (GASB) issued statements 54, Fund Balance Reporting and Governmental Fund Type Definitions, to provide clearer, more structured fund balance classifications, and to clarify the definitions of existing governmental fund types. GASB No. 54 is effective for financial statements for the periods beginning after June 15, 2010.

Under GASB No. 54, fund balance will be displayed in the classifications illustrated below depicting the relative strength of the spending constraint placed on the purposes for which resources can be used.

Nonspendable fund balance - Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).

Restricted fund balance – Amounts constrained to a specific purpose by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – Amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned fund balance – Amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates authority.

Unassigned fund balance – Amounts that are available for any purpose; these amounts are reported only in the general fund.

In accordance with GASB No. 54, we recommend that Caswell County plan for the implementation of the above pronouncement by ensuring that consistent language and structure are used across all of the governmental fund type definitions.

## 5. Fraud Hotline

The County encourages employees to report any suspicions of fraud or misconduct, but it does not necessarily provide an effective, practical mechanism for doing so. We believe that as a result, employees may be hesitant to report knowledge or suspicions that could prevent or detect fraud or other misconduct that could be detrimental to the County. Studies show that most frauds are known to someone in the defrauded organization and are revealed after a tip is received from someone with knowledge about the fraud. However, an employee may not report suspicions or knowledge of fraud if he or she does not know to whom to report, especially if the perpetrator is someone high up in the organization or someone to whom the employee reports. We recommend that the County consider establishing a fraud hotline. In the 2004 survey of its members conducted by the Association of Certified Fraud Examiners (ACFE), the survey ranked methods of detection by industry. Governments were most successful at detecting fraud through hotline tips (45.5% of cases) and internal audit departments (32.4%)

The very existence of a fraud hotline would serve as a deterrent to misconduct by creating among employees a perception that fraud would be detected and reported. It would also demonstrate the County's serious intent to prevent and detect fraud. In addition, the hotline could also be used to report incidents of harassment, unsafe working conditions, violence, or violations of laws or regulations. This would allow the County to address such situations in a timely manner and could help prevent or minimize fines, lawsuits, legal liability, or

adverse publicity by demonstrating that the County has procedures for receiving and addressing complaints.

An effective fraud hotline should have the following features:

It should be available 24/7. Studies show that 40% of calls to fraud hotlines are made at night or on weekends. Employees typically will not call during normal working hours to report on co-workers or supervisors, and they often will not call back if their first call is not answered.

The hotline must allow anonymous calls to protect confidentiality so that employees will not fear possible retaliation if they are identified as a whistle-blower.

Employees should be made aware of the hotline's availability and the reasons why they should use it. This could be done via informational posters, memos, or brochures.

A means of ensuring round-the-clock availability and confidentiality is to use the services of a third-party provider. This way, employees could be assured that they would not be talking to anyone within the County, who could possibly be involved in the fraud or could guess the whistle-blower's identity. Also, the service provider could maintain the hotline 24 hours a day and staff it with professionals trained to listen effectively, ask relevant questions, document the information received, and quickly report it back to the County.

After discussion, the Board agreed to have the County Manager and Finance Officer prepare a plan to address the issues noted in the audit findings and bring it back before the Board for review.

THE ADJOURNMENT

At 11:25 a.m. Commissioner Ward moved, seconded by Commissioner Battle to adjourn the meeting. The motion carried unanimously.

---

Wanda P. Smith  
Clerk to the Board

---

Jeremiah Jefferies  
Chairman

\*\*\*\*\*

