

AUDIT SERVICES OVERSIGHT COMMITTEE
Monday, January 25, 2021
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-Maticia Sims and Vice Chair-Nicholas Long, Shanell Frazer, Mayor Steve Schewel, Mayor Pro Tempore Jillian Johnson.

Also present: Interim City Manager Wanda Page, Deputy City Manager Bo Ferguson and Interim Deputy City Manager Regina Youngblood (HR Director); Fire Department Chief Robert Zoldos; Fire Department Deputy Chief Chris Iannuzzi; Fire Department Assistant Chief Brian Eaton; Roger Thomerson- Fire Department; Finance Director David Boyd; Joyce Cooper- Finance Department; Fred Nielson-Finance Department; Christina Riordan- Budget and Management Services Department; Finance Department Accounting Services Manager Dave Hickman; Director of Audit Services Dr. Germaine Brewington and the Audit Services Department Staff.

Not present: Deputy City Manager Keith Chadwell

The Chair, Maticia Sims, called the meeting to order at 3:31 PM.

SUBJECT: APPROVAL OF MINUTES – OCTOBER 26, 2020

Motion was made and it was properly seconded to approve the minutes of the October 26, 2020 Audit Services Oversight Committee meeting.

The motion passed unanimously.

SUBJECT: ADJUSTMENTS TO AGENDA

There were no adjustments to the agenda.

SUBJECT: FIRE INVENTORY AND SUPPLIES MANAGEMENT PERFORMANCE AUDIT DATED JANUARY 2021

Dr. Brewington gave a PowerPoint presentation and stated that this audit report was important because managing inventory is critical to controlling cost, operational efficiency and ensuring that the Fire Department fulfills its mission. Given the importance of inventory items to operations, it is important that proper management strategy and effective controls are in place to ensure Fire Department's resources are spent appropriately, and that inventory is accounted for and readily available for operational needs.

Dr. Brewington discussed the basis for the five findings: 1) the Fire Department did not have a system to track their inventory and to determine the year end value of that inventory; 2) the policy for inventory management was not comprehensive and didn't address the best practice of an annual inventory count and reconciliation; 3) the design of the Fire Department's process

hindered efficiency of staff and the lack of segregation of duties increased the risk of misappropriation of assets; 4) the delivery activity in particular needed to be reimagined to try to gain efficiencies for staff involved in the inventory management process and 5) a review of storage space was needed to ensure the Fire Department has the right kind of storage space in the future.

Recommendation 1

The Fire Department staff should develop standard operating procedures for all functions of inventory management and the warehouse. The standard operating procedures should include a requirement to perform at a minimum an annual physical inventory count.

Management concurs with reservations.

Recommendation 2

The Fire Department staff should proceed with acquiring and implementing an inventory management system that meets the specific needs of managing inventory for their business

Management concurs fully with this recommendation.

Recommendation 3:

The Fire Department staff should consider alternative options to reduce the time-consuming task of delivering goods and services to all stations by the Supply Officer. The Audit staff's benchmarking study demonstrated that other jurisdictions were successful at implementing one of these strategies. The Durham Fire Department staff should conduct a feasibility study to determine if any of the following strategies are viable options:

- Using the Fire Maintenance staff to deliver supplies;
- Shipping the supplies directly to the stations; and
- Using a delivery service.

Management concurs fully with reservations.

Recommendation 4:

The City's senior management should consider repurposing a vacant position to accommodate the Fire Department's immediate need for half an FTE to address the staffing issues. If this strategy is not a viable option given the current budget environment, other options can be explored. City management should direct the Fire Department staff to conduct a feasibility study with options to include the following:

1. Decentralize the cleaning of PPE by outfitting new firehouses with cleaning equipment and passing the responsibility of self-cleaning of PPE to employees assigned to those fire stations. This option will require funding for new fire stations to be outfitted with extraction equipment.
2. Passing the responsibility of PPE inspections to others in the organization. This option will increase the responsibilities assigned to these employees but should not result in the City incurring additional costs.
3. Designating a group of employees to be responsible for cleaning and inspections and paying them overtime. This option would require funding for overtime.
4. Hiring retired Fire Department personnel on a part-time basis to help with the cleaning, inspecting, and delivering of PPE. This option would also require additional funding.

City Management should consider the results of the feasibility study performed by the Fire Department and decide to grant additional funding needed.

Management concurs in part.

Recommendation 5:

The City's senior management should consider funding the acquisition of one additional extraction washer and two dryers. This acquisition would increase the efficiency of the cleaning process for the entire Department.

In the future, access to current City facilities (a single room of 1,225 square feet in the old General Services Department and 1,250 square feet of space at Fire Station 18) will not be available to the Fire Department. Therefore, funding for additional climate-controlled storage or an alternative climate-controlled storage location should be considered to house existing supplies and inventory. This new storage will free up space at the current warehouse for new equipment.

Management concurs.

Questions/Comments:

Nick Long shared that he thought reaching out to other cities was a great idea and informative. He also asked about the timeline for implementing a budget system and how long that would take to put in place?

Dr. Brewington asked for insight from Chief Zoldas or Deputy Chief Iannuzzi.

Deputy Chief Iannuzzi shared that they obtained funding for software through a grant and would like to have it implemented by the end of June. This time table will get them through a year of using the software before they have to deal with an ongoing funding component in which they would need to replace the program or get funding that they can apply for in the FY 23 budget. They are in the final stages of determining which software package to get and would like to have it up and running by the end of the fiscal year.

Chair Maticia Sims asked if there was an inventory process that people are required to follow on an annual basis? Do we not already have a process that's in place that the various departments are supposed to comply with?

Dr. Brewington explained that each department has its own process relative to inventory in their department; and that there is no City-wide best practice for internal controls around these inventories. Not all inventories are captured in the yearend inventory audit because of a materiality threshold that excludes them for financial reporting purposes.

Dr. Brewington continued that there are several departments whose inventories end up on the balance sheet and we examine the inventories of those departments to assure the City and the auditors that the inventory is fairly valued. The inventory with the Fire department is one of a few not included in that yearend audit or included on the balance sheet.

David Boyd added that Dr. Brewington was correct and that this particular audit was focused on the operational side. He also mentioned that what the City keeps on hand is not material to the

financial statements and doesn't need additional administrative controls to keep the financial side correct. It's more important that operationally the departments have what they have when they need it more than a financial statement component.

To confirm her understanding, Chair Maticia Sims asked David Boyd: when looking at inventory and determining whether that inventory will be capitalized or expensed, the question is as a whole for the City would it be material? David Boyd confirmed with a yes.

Shanell Frazer asked, for clarification, if the staffing issue at DFD was due to not having enough staff? Dr. Brewington responded that due to the design of the process, the 2.5 FTEs assigned to inventory management at DFD (Durham Fire Department) are not adequate compared to other cities. The number may not seem too low on its surface; but, the way that we do business the City could benefit (based on other cities) from an additional ½ FTE.

Shanell Frazer asked would adding staff affect the bottleneck of drying the uniforms or is there something in the budget to add additional items for this such as a machine to assist with this?

Dr. Brewington shared that there are no funds in the budget currently and is unsure if there will be anything in the FY 22 budget. A ½ FTE would definitely help DFD staff with their delivery issues. However, DFD needs equipment to improve the bottleneck with cleaning the gear because there is only one washing machine or extractor and one dryer. The additional ½ FTE would not improve the bottleneck from the equipment needs.

There was no further discussion on the audit report.

SUBJECT: REVIEW OF THE EXTERNAL AUDITOR SELECTION RESULTS

Dr. Brewington provided results of the External Auditor Selection committee that reviewed the proposals of firms seeking to be the potential vendor for these services with the City for the FY 21-23-time frame. The process began in November, 2020. The RFP was advertised by the Purchasing Division of the Finance Department on November 9, 2020 and ended December 10, 2020. The pre-bid conference was held on November 23rd. Seven firms attended the pre-bid conference with two firms self-identifying as UBE's or underutilized business enterprises.

Three bids were received from the following firms – Cherry Bekaert, Elliott Davis, S. Preston Douglas and Associates. There were five panelists from various departments within the City who reviewed the proposals. The panel met on January 6th and evaluated the proposals that were received in two parts: Experience and Qualifications & Cost. The total amount of points that any firm could receive was 120 points.

The panel did not reach a final decision in their deliberations because there was a concern about the issue of familiarity that could not be documented quantitatively based on the scoring criteria documented in the RFP. The panel did rank the candidates and Cherry Bekaert received the highest ranking with Elliott Davis coming in a close second. The third firm was deemed not to have been responsive. Given that the panel did not arrive at a definitive decision on the next vendor, Dr. Brewington presented Elliott Davis as the recommendation for the external auditor

candidate to bring in a new firm at a slightly lower fee, with a fresh perspective after eight years of using the same firm.

David Boyd shared that he was not involved in the selection process. He also mentioned that in the past it was a best practice to change or rotate auditors but in most recent times that has changed and it's no longer recommended. There is a benefit to having an ongoing relationship with an auditor to the quality of the audit. Changing auditors could be disruptive and affect the quality of the audit for the first few years. A long standing relationship is helpful.

Questions/Comments:

Chair Maticia Sims shared that after looking at the recommendation and the scores from the panel, she was surprised at the recommendation. Given no drastic difference in the fees and thinking about the disruption of moving to a new firm, her view was that if there is not a problem with the current firm then why change firms. She did not see a compelling reason to change firms.

Nick Long echoed a few sentiments from Chair Maticia Sims but also shared that its beneficial to have a firm that has a general understanding of the business.

Mayor Schewel shared that he has been an advocate of changing firms over time but he was okay either way but understands the sentiments David Boyd shared.

Shanell Frazer shared that she understands both sides of the discussion but would go with Elliott Davis primarily because the familiarity could serve us or it could hinder us. If we did decide to move with a new firm, then of course we would have a new partner. Member Frazer next stated that the process will typically remain the same regardless of the firm because standards have to be followed; but sometimes when it's the same process a too familiar auditor could tend to overlook things that they may need to focus more on.

Mayor Pro-Tempore shared that she doesn't have a strong opinion. She deferred to Dr. Brewington to choose the path in which she thinks is correct.

Dr. Brewington proposed that Cherry Bekaert remain the external auditor after hearing the discussion. Even though she believed change is needed, the uncertainty about the Covid-19 virus and the need for a firm to be able to work remotely if need be along with changes in personnel in the Finance Department made change at this time seem ill-advised if not necessary. There was no opposition.

David Boyd did take a moment to thank everyone for the process and decision.

Dr. Brewington mentioned that we still had items on the agenda but needed to move into the closed session. She stated that we would bring the items we did not get to back to the Committee in February.

Motion was made to move to a closed session and it was properly seconded to move into a closed session.

The motion passed unanimously.

OTHER BUSINESS:

- **CLOSED SESSION**

After the closed session, the regular meeting session convened at 4:58 pm.

Dr. Brewington thanked everyone for attending the meeting and reminded everyone about the next meeting. The next virtual meeting is scheduled for February 22, 2020.

Chair Maticia Sims adjourned the meeting at 4:59 p.m.

Respectfully submitted,

Jamie Tindal