



**Grand Traverse County
Board of Commissioners
Special Meeting**

Wednesday, April 12, 2017
(immediately following the completion of the Study Session being held at 5:30 p.m.)
Commission Chambers
Governmental Center, 400 Boardman,
Traverse City, MI 49684

The Board of the Commissioners will be holding a Special Meeting which has been set for the date, time and location noted above. The purpose of the meeting is identified in the Agenda below.

If you are planning to attend and you have a disability requiring any special assistance at the meeting, please notify the County Clerk immediately at 922-4760.

AGENDA

- I. Call to Order (Pledge, Roll Call)
- II. First Public Comment

Any person shall be permitted to address a meeting of the Board of Commissioners which is required to be open to the public under the provision of the Michigan Open Meetings Act, as amended. (MCLA 15.261, et.seq.) Public Comment shall be carried out in accordance with the following Board Rules and Procedures:

A) Any person wishing to address the Board shall state his or her name and address.

B) No person shall be allowed to speak more than once on the same matter, excluding time needed to answer Commissioners' questions. The Chairperson shall control the amount of time each person shall be allowed to speak, which shall not exceed three (3) minutes. Chairperson may, at his or her discretion, extend the amount of time any person is allowed to speak.

- III. Annual Audit Recommendation/Discussion:

- A) Annual Audit Recommendation (Tabled from 4-5-17)..... 2
- B) Letter from Rehmann (April 6, 2017)..... 6

- IV. Second Public Comment
- V. Adjournment



Memorandum

Grand Traverse County
County Administration
400 Boardman Avenue
Traverse City, Michigan 49684
(231) 922-4780 Fax (231) 922-4636

TO: Board of Commissioners
Chairwoman, Ms. Carol Crawford
Vice-Chair, Mr. Ron Clous

FROM: Thomas F. Menzel, County Administrator
Jennifer DeHaan, Deputy Administrator
Jody N. Lundquist, Finance Director

DATE: March 27, 2017

SUBJECT: Annual Audit Recommendation

TFM
JDeH

The Board has requested information regarding the County audit and this memo is intended to provide you with an update.

We are continuing to close out the 2016 fiscal year in order to prepare the County's 2016 financial statements and for the County's annual audit. As part of this year's annual audit, we will be conducting an in-depth review of our internal controls of the County's financial operations. Several issues have been identified by the new finance director that need to be investigated further in the annual audit process. We have held bringing the engagement letter to the Board until such time as the majority of work related to the audit is completed so that the internal processes are not impacted by the announcement of this review. This review is consistent with all other internal reviews that have been completed for other departments.

Several issues regarding the security of the County's IT system including the deletion of budget data, the inability to audit and restrict access to certain AS400 functions and unauthorized access to emails/calendars by internal staff have heightened the need for additional review and testing of controls during the annual audit process. The audit is also expected to address the suspected use of public resources for the Commission on Aging millage, questions regarding the available fund balance for the pension payment, and other concerns over financial policy and procedural matters.

The examples above continue to demonstrate the need to continuously review processes and policies that ensure the integrity of our accounting system. When some of these issues developed we did not have a finance director and we now have the expertise to identify these issues and need to fully investigate them.

The Government Finance Officers Association (GFOA) Best Practice for audit procurement states that "properly performed audits play a vital role in the public sector by helping to preserve the integrity of the public finance functions and by maintaining citizens' confidence in their elected officials." While the GFOA best practice encourages a competitive process for the

selection of independent audit firms, it also emphasizes that multi-year agreements should last at least five-years and that cost should never be the sole criterion for the selection of a firm. The American Institute of CPA's (AICPA) also affirms the detrimental impact mandatory rotation may have on audit quality in its letter to the Public Company Accounting Oversight Board (PCAOB). In it, the AICPA supports its conclusions by offering citations of academic research and studies that demonstrate audit quality increases with a firm's tenure.

We will be bringing a policy recommendation to the Board of Commissioners regarding the bidding process for independent audit firms to put some consistency and structure into future audits. As transitions between audit firms require significant staff time and a learning curve for the new firm to have a solid base of experience and understanding of County operations. For this year, the review/audit would be better served by using the existing auditing firm who is familiar with our systems and how the data and information is presented. A new firm will require new formats, new reports, etc., which are not easily available with the County's antiquated software systems.

As we continue to review systems and processes in all departments, the Finance Department needs this review as well and now is the time to enhance the scope of the annual audit to provide the Board and administrative staff more updated and critical information so that we can implement improved systems and processes.

I will predict that we will find a great many areas for improvement since this is a common result of internal audits by outside resources and has proven to be true when we reviewed the Commission on Aging, IT Department and others.

This review or extensive audit of Finance will be in concert with our charter to review departments and determine areas of needed improvement and then layout plans to do so. In this case, this review will undoubtedly improve public trust, transparency, and accountability.

Again, if Commissioners have questions, please ask.



BEST PRACTICE

Audit Procurement

BACKGROUND:

The Government Finance Officers Association (GFOA) has long recommended that state and local governmental entities obtain independent audits of their financial statements performed in accordance with the appropriate professional auditing standards. Properly performed audits play a vital role in the public sector by helping to preserve the integrity of the public finance functions and by maintaining citizens' confidence in their elected leaders.

RECOMMENDATION:

GFOA makes the following recommendations regarding the selection of auditing services:

- The scope of the independent audit should encompass not only the fair presentation of the basic financial statements, but also the fair presentation of the financial statements of individual funds and component units. The cost of extending full audit coverage to the financial statements of individual funds and component units can be justified by the additional degree of assurance provided. Nevertheless, the selection of the appropriate scope of the independent audit ultimately remains a matter of professional judgment. Accordingly, those responsible for securing independent audits should make their decision concerning the appropriate scope of the audit engagement based upon their particular government's specific needs and circumstances, consistent with applicable legal requirements.
- Governmental entities should require in their audit contracts that the auditors of their financial statements conform to the independence standard promulgated in the General Accounting Office's *Government Auditing Standards* even for audit engagements that are not otherwise subject to generally accepted government auditing standards.
- Governmental entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors. Such multiyear agreements can take a variety of different forms (e.g., a series of single-year contracts), consistent with applicable legal requirements. Such agreements allow for greater continuity and help to minimize the potential for disruption in connection with the independent audit. Multiyear agreements can also help to reduce audit costs by allowing auditors to recover certain "startup" costs over several years, rather than over a single year.
- Governmental entities should undertake a full-scale competitive process for the selection of independent auditors at the end of the term of each audit contract, consistent with applicable legal requirements. Ideally, auditor independence would be enhanced by a policy requiring that the independent auditor be replaced at the end of the audit contract, as is often the case in the private sector. Unfortunately, the frequent lack of competition among audit firms fully qualified to perform public-sector audits could make a policy of mandatory auditor rotation counterproductive. In such cases, it is recommended that a governmental entity actively seek the participation of all qualified firms, including the current auditors, assuming that the past performance of the current auditors has proven satisfactory. Except in cases where a

multiyear agreement has taken the form of a series of single-year contracts, a contractual provision for the automatic renewal of the audit contract (e.g., an automatic second term for the auditor upon satisfactory performance) is inconsistent with this recommendation.

- Professional standards allow independent auditors to perform certain types of nonaudit services for their audit clients. Any significant nonaudit services should always be approved in advance by a governmental entity's audit committee. Furthermore, governmental entities should routinely explore the possibility of alternative service providers before making a decision to engage their independent auditors to perform significant nonaudit services.
- The audit procurement process should be structured so that the principal factor in the selection of an independent auditor is the auditor's ability to perform a quality audit. In no case should price be allowed to serve as the sole criterion for the selection of an independent auditor.

References:

- *CPA Audit Quality: A Framework for Procuring Audit Services*, General Accounting Office, August 1987.
- *Audit Management Handbook*, Stephen J. Gauthier, GFOA, 1989.
- *An Elected Official's Guide to Auditing*, Stephen J. Gauthier, GFOA, 1992.
- *Governmental Accounting, Auditing and Financial Reporting (GAAFR)*, Stephen J. Gauthier, GFOA.



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April 6, 2017

Carol Crawford, Chairperson
Grand Traverse County Board of Commissioners
400 Boardman Avenue
Traverse City, MI 49684

Dear Mrs. Crawford,

Please accept this letter which withdraws our proposed engagement letter dated March 16, 2017.

Very truly yours,

A handwritten signature in black ink that reads "Stephen M. Peacock". The signature is fluid and cursive.

Stephen M. Peacock, CPA
Principal

cc: Tom Menzel, Administrator
Jennifer DeHaan, Deputy Administrator
Jody Lundquist, Finance Director