

Minutes
CUYAHOGA COUNTY
AUDIT COMMITTEE
MEETING
Thursday, June 13, 9:00 AM – 12:00 PM

1. Call to Order – meeting of June 13, 2024

The meeting was called to order at 9:02 a.m.

2. Roll Call

Attending:

Michael Abouserhal, Audit Committee Chairman
Trevor McAleer (alternate for Council President Pernel Jones, Jr.)
Keith Libman
Katie Gallagher, (alternate for County Executive Chris Ronayne)
Michael Chambers, Fiscal Officer
Salvatore Talarico

Absent:

Meltrice Sharp

3. Public Comment - Related to Items on the Agenda

There was no public comment related to items on the agenda.

4. Approval of Minutes – March 28, 2024; April 11, 2024; April 16, 2024

Keith Libman motioned to approve the March 28, 2024; April 11, 2024; April 16, 2024 minutes; Salvatore Talarico seconded. The motion was unanimously approved.

5. Member Appointment

- a. Reappointment of Michael Abouserhal

Michael indicated his current term expires 12/31/2024 and he is looking forward to having a conversation with the County Executive in regard to his desire for reappointment.

6. Executive Session (As Necessary)

None.

Keith Libman motioned to approve the extension of the Department of Internal Audit Director's ADA Accommodation until the end of their term on June 30, 2024, and continue to request the HR Director to administer the ADA accommodation on behalf of the Audit Committee; Salvatore Talarico seconded. The motion was unanimously approved.

Michael Abouserhal reported that the Audit Committee has received the DIA Director's response to the most recent proposed evaluation and transmitted it to Human Resources for review and appropriate action.

7. Old Business

a. Follow-up Items from 1st Quarter Meeting

Monica Houston, Director of Internal Audit, addressed the committee regarding the follow-up items:

- **Grants Management Audit** – As per the prior meeting, Fiscal will resume focus on this after completion of the County external audit. Fiscal has an action plan in place.

Leigh Tucker, Assistant Fiscal Officer, provided an update on her team's progress with the cleanup of grants:

- Their focus for review is mainly on the negative cash balances for 40 grants totaling \$2.4 million prior to 2018 because most of the grants after are still active. They are working with the County's Office of Budget and Management (OBM) for a cleanup number. However, Leigh believes in the end there will be no cash impact to the County, because any grant with a negative balance at the time of the reporting year was absorbed by that fund. Fiscal has developed a new grant policy, which has not yet been vetted with the Administrative Rules Board. The policy includes an Annual clean-up process and grant close-out period monitoring.

Committee members asked questions of Leigh pertaining to the item and she answered accordingly.

- **2024 Goals** – A plan to address the education of auditees on the value of IA was included as part of the 2024 Goals approved at prior meeting. The educational YouTube video per Salvatore Talarico's request was included. The timeline to complete the plan will likely span 2 to 3 years. The focus of the plan is on increasing awareness and knowledge of the Internal Audit Department throughout the organization and externally.
- **HR Employee Payroll Review** – Committee to invite the Agency of Inspector General (AIG) back later in the year to provide an update on collection status of overpayments and continuous monitoring process. Per Monica, AIG had no updates to report, but they will be invited back by the

Audit Committee sometime later this year for updates. Monica requested that Katie Gallagher, update the Committee on the work recently performed by HR, Fiscal, and the Law Department relative to the collection of overpayments after their receiving foundational process recommendations from Internal Audit.

- Katie Gallagher elaborated on this process. As the team goes through the process of finalizing the policy, and also the process of collecting on past overpayments as well, they have seen a lot of success. They have also worked with the unions on negotiations to make sure there is overpayment language in the Collective Bargaining Agreements (CBAs) as they are negotiating. This will make it easier to collect and there is less back and forth with the unions when this does occur.
- Audit Surveys – Surveys received through 4/30 have been provided to Committee. Monica mentioned that since then, DIA has received more survey responses that will be sent to the Audit Committee. She reported that all the feedback looks very positive.
 - Keith Libman asked about what percentage of the requests are returned and if DIA makes an effort to encourage responses. Monica replied, they have a 49% return rate and they do make a lot of effort to get back responses. Monica has found that if people feel that you did a bad job or a really good job, they are going to let you know. However, if you just met expectations, they are not as likely to respond.
- Budget Update – Deficit of approximately \$5,000 projected for 2024. DIA has requested a budget increase from Council. DIA recently lost an employee due to a transfer to the Law Department, which may help cover the budget shortfall. Katie Gallagher confirmed that the request to increase DIA's budget is on Fiscal's agenda for Council submittal. As of the meeting, HR has not yet posted the job vacancy. Lastly, Monica noted that Michael Abouserhal requested this topic be removed from the agenda for the current meeting.
- Continuing Professional Education (CPE) – Clark Schaefer not currently offering CPE. They typically conduct CPE training courses for the IIA and/or ISACA organizations, which are open to anyone who would like to attend.
- Association of Local Government Auditors (ALGA) – DIA did not win the award for the submitted audit, so DIA did not travel to the ALGA conference.

b. External Audit Update – 2023 Financial Statements

Leigh Tucker reported that the County met the May 30th deadline. Clark Schaeffer's deadline for issuing the report is June 30th. Leigh reported that

Clark Schaeffer has not notified the County of any significant findings or concerns.

Michael Chambers, Fiscal Officer, explained that when he came on board, Fiscal had lost 32 of 40 employees which caused a mess, but since then Leigh Tucker and her team have turned things around in a relatively short time, which is a great accomplishment.

c. Recommendation for Revision to Cuyahoga County Charter

Michael Abouserhal provided a brief history of the matter. The aim of the revision is to ensure internal audit has access to records and information at the County, as well as resolving any potential confusion about the authority of the Audit Committee as well as the DIA. The Audit Committee had asked Monica to draft Charter language which is now under review with the Prosecutor's Office.

Mark Musson, Assistant Prosecuting Attorney, provided a brief update. He reported that he had reviewed the proposed charter revisions and attempted to tighten up the language. His colleagues are reviewing it and once they are done, he can provide the Audit Committee an update.

Discussion ensued amongst the committee members pertaining to the item.

d. Schedule the Update to the Council

- Michael Abouserhal emphasized that the Audit Committee has a responsibility to formally report to the County Council on the work of the Audit Committee and the Internal Audit Department each year.
- Monica reported that she had requested a date of June 25, 2024, for the presentation of the report to County Council. She is currently working with the administration on confirmation of the date and expects to hear a decision by next week.

e. Grants Audit – Update (See agenda item 7a. Follow-up Items from 1st Quarter Meeting – Grants Management Audit)

8. Other Business:

a. DIA Evaluations

- Director 2023 Evaluation (See agenda item 6b. Director Evaluation)
 - Confirm completion of 2023 staff evaluations
 - i. Monica Houston reported that all employees have been reviewed, but she still needs to provide feedback to some employees. All staff performed at or above expectations and there are no concerns to report.

- ii. Michael Abouserhal asked Monica if all evaluations will be complete by June 30th; Monica responded in the affirmative.

b. Audit Department Salaries

Michael pointed out that there is language in the Audit Committee charter that would allow potential changes for salaries in the department to come before Audit Committee for approval. Monica said she is not proposing any changes.

c. Review Annual Update to Council

Michael Abouserhal suggested that a motion would be needed to approve the report and reminded members that the update was included in their packets. Michael asked Monica if she would provide the Audit Committee with a copy of the Powerpoint presentation in advance. Monica responded in the affirmative, noting she would do so if presented to Council before her term ends June 30th.

Monica asked the Committee if they have any questions and reminded them that pretty much the presentation is an extraction of the information from the report:

- Keith Libman asked Monica why management responses are not included with the results described within the highlights of engagements released in 2023 on page 23 of the report. Keith suggested that including the responses might be helpful in case anyone at the Council meeting is interested in seeing the responses.
- Monica Houston reminded the Committee that the Update to Council is summarization of DIA activity which occurred during the prior year. She further reminded them that audit reports are sent out to County Council in full detail when completed, so each of the auditees are aware that County Council gets to hear their voice. Additionally, included with the report to Council are the semi-annual follow-up reports, so they are also made aware of the progress with the status of management action plans relative to issue remediation.

Keith Libman motioned to approve the Update to the Council report for purposes of presentation to the Cuyahoga County Council; Salvatore Talarico seconded. The motion was unanimously approved.

d. Annual Review of Cuyahoga Charter (See agenda item 7c – Recommendation for Revision to Cuyahoga County Charter)

e. Annual Review of Audit Committee Charter

Monica Houston provided a brief history of the matter:

- The overriding and main reason for the recommended Audit Committee Charter revisions is to comply with the recommendation by the 2021 quality assessment that the Institute of Internal Auditors (IIA) performed. She utilized and tailored the IIA's charter template to fit what is feasible for the County. Monica also brought up another recommendation from the assessment at the Internal Audit Department level relative to addressing the lack of assurance over ethics and governance. Monica encouraged the Audit Committee to consider addressing this through providing assurance that ethics are being monitored and appropriately managed at the County.

Discussion ensued and committee members asked questions of Monica pertaining to the item:

- Keith Libman asked Monica to confirm if it is the Inspector General that manages the County's ethics process and the peer review is recommending the Audit Committee play an assurance role over their process; Monica responded in the affirmative.
- Michael Abouserhal suggested a different perspective. He believes what the Audit Committee has been doing what is necessary for the County and generally conforms with what they are currently charged with. Therefore, before deciding to take on any additional oversight responsibilities that are recommended, he first would like to develop a better understanding of the functions being performed at the County.
- Keith Libman suggested the new Director of Internal Auditor, starting July 1st, should review the drafted Audit Committee Charter (with revisions) and provide input to the Audit Committee. He mentioned that he does not agree with all the recommendations from the peer review, but suggested a working session meeting would be helpful for thorough discussion.
- Trevor McAleer concurred with Keith in that he does not agree with some of the proposed Charter revisions, particularly as it relates to providing oversight over the ethics work of the Inspector General.
- Monica Houston reiterated that the Peer Review is not recommending the Audit Committee provide oversight to any other part of the organization, but rather the Audit Committee should provide assurance that appropriate governance is occurring utilizing the internal audit function.
- In closing, Michael Abouserhal suggested the summation of the discussion is that no one is really advocating to present a motion to approve the proposed change to the Audit Committee Charter, but rather there is a willingness of the Audit Committee to address this topic further down the road.

f. Annual Review of Internal Audit Charter

Monica Houston reported that there are no proposed changes at this time. However, she did comment that there will probably be changes needed to the Internal Audit Manual and Internal Audit Charter to ensure processes conform with the revised Red Book standards required by the IIA by the end of this year.

g. Annual Review of Internal Audit Policy

Monica Houston reminded the Committee that DIA has adjusted its process to appropriately assume and manage the duties previously handled by the former Executive Liaison. The revisions made to the Manual were to reflect these changes.

h. Status of Current Engagements (see attached)

- Update on Current Audit Engagements

Joshua Ault provided a brief update on the status of current engagements.

The following are the 2023 carryover audits:

- Hotel/Motel – Report was released in January.
- ITGC – Josh deferred to Monica to discuss at the end.
- Bank Reconciliation process – Additional fieldwork will delay report issuance by a couple weeks. DIA expects the report to be released by the beginning of July.
- DoD Loan Portfolio – The report has been approved and publicly released.
- Housing & Community Development – Nearing completion of fieldwork. DIA identified additional work during the audit relative to assessing progress on action plans in response to federal and state audit findings.

The following are the audits from the 2024 audit plan:

- Ethics – Deferred.
- Jail Operations – Deferred.
- Microfilm – In the planning stage and close to having it scoped out and an audit program ready.
- Justice Information Systems – Not yet started.

Joshua reported that based on the current schedule, DIA expects to only have two audits carry-over as planned by year-end.

Discussion ensued and committee members asked questions pertaining to the item:

- Salvatore Talarico asked whether part of the intent with the Microfilm audit is to review their adherence to retention schedules; Monica confirmed in the affirmative and further advised DIA learned this engagement will also need to include an additional department within the organization which is being added.
- Keith Libman asked what consideration is given when an engagement starts exceeding the audit plan budget hours including trade-off between expending the additional resources of an audit that is going badly versus not being able to spend the time on other approved audits. He used the Economic Development Loan Audit being 412 hours over budget as an example.
 - Monica Houston responded by stating:
 - DIA does not come back to the audit committee for consideration of audit priority (trade off situation described above).
 - It's pertinent to consider the IIA quality review assessment recommendation relative to the efficiencies that DIA could realize if it switches to performing risk assessments and audits on a functional basis.
 - Another consideration is audit coverage. DIA performs audits on a departmental basis and many of which are first time engagements.
 - If DIA were to decide to stop in the middle of audits in these situations to stay on budget, they would be stopping audits all the time.
 - DIA's budget versus actual (BVA) variance has decreased significantly. DIA is working to better manage budgets and prevent overages; however, it can result in carry-over to the next year.
- Monica provided an update on the IT general controls (ITGC) engagement.
 - The vendor has entered the fieldwork stage. DIA provided them with the documentation needed by leveraging the documentation already made available through the County external audit. A contract extension will be needed as review will extend past the original June 30th estimated date of completion. Current completion projected for July 24th.

- Keith Libman asked Monica to explain the 40 hours budgeted for the project. Monica clarified that the 40 hours only represents DIA time for co-managing the project and does not include the vendor's time. Keith asked if Monica could confirm that the contract has a fixed budget by dollars and there would not be a budget overrun; Monica responded in the affirmative.
- Michael Abouserhal provided some historical context of the DoD Economic Development Loan Portfolio, considering DIA's recent audit report:
 - The County has a pot of money that they made available for economic development loans based upon certain criteria, the money is loaned out for various projects and initiatives. Some of the loans are forgivable based upon how the loan is structured, whereas other loans are to be repaid.
 - Years ago, issues were identified with the loans and the Audit Committee was directly involved with working with the Inspector General who ultimately took the lead with performing the review. Based on the Inspector General's reports, significant improvements have been made by the department.
- Michael Abouserhal asked the DIA department to present an overview of the history of the loan portfolio, an assessment from the recent audit, and summarize the high priority recommendations from the audit report. A summary was provided to the Audit Committee as part of the meeting materials.
- Monica Houston started by:
 - Thanking the DoD for their cooperation and diligence in their mission in terms of economic development. Expressing DIA found overall that DoD has been effective in servicing their loans. There were no issues identified considered as material in nature. Advising the findings within the report were primarily focused on policy and internal control enhancements to ensure their loan servicing are meeting best practices consistently.
- Tom Schneider, Senior Staff Auditor, presented an overview based on the summary document provided to the Audit Committee members within their packet.
- Bryan Edwards, DoD Loan Portfolio Manager, was in attendance to provide additional background on the economic development loan portfolio and to address any questions from the Audit Committee relative to the overview:
 - Keith Libman asked if uncollectible loans represent the smaller portion of the portfolio; Bryan Edwards replied in the affirmative, further elaborating that:

- i. A majority of uncollectible loan balances remaining are from what is left over of microloans from 2005-2016 after collections efforts by a third-party collections agency, Douglass & Associates.
- ii. At that time, loans were not being accounted for properly in the portfolio or were missing entirely. Bryan is confident they have all loans properly accounted for in their loan management software.

Bryan agrees with the suggestions from DIA and is committed to implementing them.

- o Katie Gallagher reported that she oversees with the Innovation and Performance team who has advised it was terrific to work with the economic development team including creating that process map for the payment process, and she would encourage DoD to continue the use of process maps from the payment section on using the new software, Salesforce.
- o Monica Houston suggested Bryan reach out to DIA if DoD has questions over controls with the new software, as they would be glad to help.
- o Bryan reported that DoD continues to monitor borrower compliance with job creation requirements, particularly after allowing for some deferments after recovering from the pandemic.
- o Michael Abouserhal requested an update on the implementation of the new loan software. Bryan reported that:
 - Vendor selection has been narrowed down to two.
 - It is not just loan software, but also a full customer relationship management (CRM) tool which will help DoD to organize and retain all correspondence and documentation related to their lending activity.
 - Implementation timeline is anticipated for 2025, but they still need to determine through the discovery process precisely how long it will take.
 - In the meantime, Portfol is fully functional, and loans are being maintained accurately.

Committee members asked questions of Bryan Edwards pertaining to DIA's summary document and he answered accordingly.

- o Monica Houston announced the presence of Vaughn Johnson, Development Deputy Director, who arrived during the meeting at 10:30 am, and invited him to participate in the conversation.

- Committee members asked further questions of Bryan Edwards pertaining to DoD's economic development loan fund and the types of loans issued; he answered accordingly.
- Monica Houston announced the presence of Paul Herdeg, Development Director, who arrived during the meeting at 10:42 am, and invited him to participate in the conversation.

In closing, Monica reiterated that DIA found that DoD is doing what they would expect it to do to manage the portfolio and balancing it with their mission. It is not a standard commercial lender. The goal is to spur economic development, which is a balancing act, and they are doing a great job with that. DIA was making recommendations for enhancements and to make sure we can continue to spur economic development in the County through this loan program.

i. Current/Emerging Risks

Monica presented the emerging risks as well as an update on previously discussed emerging risks:

- Right to Audit Clause – The previous risk of the County's lack of a consistent right to audit clause in contracts has since been noted in some County contracts. Review has shown that some contracts have a clause that funds provided by the County are subject to review by the Agency of the Inspector General (AIG) and DIA.
 - Michael Abouserhal asked if the right to audit clause is in all the County's contracts and how is DIA and the AIG notified when contracts include this language for potential consideration of adding the review to audit plan. Monica advised that based on her recollection of past conversations, she believes the Law Department is working on implementing this as part of their standard process. She further recommended this be considered a follow-up item for the Audit Committee.
 - In closing, Michael Abouserhal determined it should be a follow-up item for the Audit Committee as looking at contracts, which may be deemed more sensitive or may require additional oversight, would be a great utilization of the DIA and/or the AIG.
- Audit Committee Charter compliance - The Audit Committee may not be in compliance with provisions of the charter with respect to the candidate that was selected for the Director of Internal Audit position.
 - The provision of the charter states that the Director must be a Certified Internal Auditor (CIA), a member of the IIA, or similar successor organization. It is her understanding that since the IIA is in existence, there is not a similar successor organization. She said there may be some exposure to the Audit Committee and the County on that issue.

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- Based on her review of the Resolution, it appears the candidate may not meet the Charter requirements of being a CIA or member of the IIA.

In closing, Michael Abouserhal stated he would need to confer with their legal team for interpretation on what a similar successor organization refers to.

9. Public Comment – Unrelated to Agenda

There was no public comment unrelated to items on the agenda.

10. Next Meeting – Thursday, September 5, 2024, 9:00 AM – 12:00 PM

11. Adjournment

Trevor McAleer motioned to adjourn the meeting; Salvatore Talarico seconded. The motion to adjourn the meeting was unanimously approved at 11:13am.

(signature on file)

Michael Abouserhal, Chair

MA/ts