MINUTES
SPECIAL MEETING
AUDIT PRESENTATON
FAIRFIELD COUNTY COUNCIL
APRIL 4, 2022

Present: Moses Bell, Shirley Greene, Timothy Roseborough, Clarence Gilbert, Cornelius Robinson, Doug Pauley, (Council Members); Kim W. Roberts, Clerk to Council.

Absent: Mikel Trapp

In accordance with the South Carolina Code of Laws, 1976, Section 30-4-80 (e), as amended, the following persons and/or organizations have been notified of the time, date and location of this meeting: The Independent Voice of Blythewood and Fairfield, The Country Chronicle and one hundred forty-two other individuals.

1. **CALL TO ORDER**
   Chairman Bell called the Special Meeting to order at 6:00 p.m. He stated Councilman Trapp was unable to attend the meeting.

2. **APPROVAL OF AGENDA**
   Motion made by Councilwoman Greene, seconded by Councilman Roseborough, to approve the agenda. Mr. Pauley said he knew a lot of them probably had a lot of questions for that night. Some of the questions probably applied to the auditor and others to Ms. Bass and Administrative staff. He asked if they would follow last year's procedure and submit questions in writing to them and then they return the answers in another Council meeting. Mr. Bell said Ms. Bass had agreed to answer questions as they normally would and she would prepare a list of those questions for full Council. Mr. Pauley said ok. ***The motion carried unanimously 6-0.***

3. **INVOCATION**
   Councilman Robinson led the invocation.

4. **COUNTY ADMINISTRATOR'S REPORT**
   A. Presentation of FY 2020-2021 Audit – Vice Chair Greene invited the attendees to come to the front as the presentation was via zoom. Mr. Whitaker stated Fairfield County had annual requirements to contract with an independent auditor to review their financial statements and that firm was Elliot Davis. He asked Ann Bass, Fairfield County Finance Director who served as the liaison for County financial audits, to facilitate the presentation. Ms. Bass said Ryan Miller, with Elliot Davis, would be

conducting the presentation. She said Mr. Miller picked up midstream when their former audit lead moved on to a different endeavor. Mr. Miller started about mid-October to help complete the process and get over the finish line. She and Mr. Whitaker talked about last year's process regarding operational type questions. Last year, those questions were submitted, collected and returned with a formal response. It worked well and she recommended to Council to submit questions to Administration by April 18th - they would compile them and create a formal response. What Mr. Miller would cover would mostly encompass how they audit the County's statements in comparison to governmental standards and GAP policies.
Mr. Miller thanked Ann, Malik and Beverly for their cooperation and responsiveness in the process. He said it was a good day for everyone – Fairfield County and Elliot Davis. He began by going over some things that were required under professional standards to communicate to the governing body. He would talk about the overall audit process and what each phase entailed and would lead up to the financial statement preparation and review process. He would go through the different sections of the financial statements. The Elliot Davis sections – they had 3 opinions that were included in the report and then the schedule of findings and cause at the end that summarized the overall results. When he talked about the opinions, he would break them down in layman's terms so they would be easy to understand. He said every audit began with a planning process. They did planning for Fairfield County in June/July and that was where the overall audit plan was developed, which included designing the audit approach and audit procedures. The approach and procedures were based on previous year's experience, previous findings (if there were any), current events/activities at Fairfield County, discussions with management, reading the control process narratives, and enhancing their understanding of Fairfield County's internal control structure. They would perform risk assessments where they would select a transaction and do a walk thru of that transaction from the time it was initiated until it was posted to the general ledger and made its way to the financial statement. Collectively, they considered all of these factors and developed the overall audit plan. While doing so, they developed an internal estimate based on qualitative and quantitative factors, known as materiality. Materiality was the maximum amount that financial statements could be off or misstated and still be materially correct. They had to set a materiality threshold for any audit engagement, otherwise they would be auditing 100% the transactions and that was nearly impossible – they would be there all year and it would be costly. The threshold was based on qualitative and quantitative factors and the tests were designed based on that threshold. After the materiality was developed, it was determined for Fairfield County

which financial statement line items were material – which ones were risky, where did they need to spend most of their time. They did that throughout the planning and interim phases of the audit, which started back in June. When they came back at year-end and the books were closed, that was when they began what they called substandard procedures over the June 30, 2021 account balances. While they did the tests over the June 30th account balances, they also focused on Fairfield's internal control structure and where those controls were the strongest. In the areas where those controls were the strongest, they should be able to spend less time there. If there were good controls in place then there were good mechanisms that would detect and prevent misstatements or errors. Once those areas were isolated, they would focus on the areas where the controls were a little weaker. They did that for the year-end field of work and then they got to the financial statements. When they got to the financial statements, they wanted to make sure that all the noted disclosures and the presentation of the financial statements were in conformity with the U.S. GAP and government standards. They looked at the significant accounting policies to determine if there were any new standards that needed to be adopted. This year's biggest one was GASB 84 related to fiduciary activities. It did not have material impact on Fairfield County's financial statements so it did not have to be adopted. Everything else was pretty consistent with last year. He said when they evaluated financial statements, they looked at any sort of management judgement (accounting estimate) – things like the OPED plan, pension plan accounting, depreciation of the estimated use, fixed assets and if there was an allowance from accounts receivable. They evaluated that for adequacy and reasonableness and there were no issues there. There were no disclosures – they compared those to a governmental disclosure checklist to ensure the footnotes were all inclusive, they were complete, concise, and accurate and that they conformed with government auditing standards. In terms of misstatements, they recorded some reclassification adjustments where they may have reclassified a liability to an asset, if that liability carried a debit balance or vice versa. They had a couple of those but they were insignificant. They did not meet the threshold to warrant attention. They did it as a part of the financial statement review process just to clean things up a little bit. There were two small adjustments – they were not material. It was standard and most of the adjustments they recorded were provided by Ann and her team. They had no disagreements with management. He felt since he came on board in late October or November, it was a journey but the cooperation received and the relationships were very strong. Management did not consult with any of our accountants that they were aware of during the process and neither did they. There were no significant issues discovered and no difficulties in performing the audit. The biggest issue was the timeliness of it but outside of that, it was clean. In terms of the accounting records received, the support and cooperation, all was fine. It drug out a little longer than it probably needed to going forward. They had one finding, which related to timeliness. There was a State statute as to when the audited financial statements were required to be submitted to the Comptroller General's office. That was one where they did not have a lot of flexibility – it was just timely financial reporting and it was a catchall for everything that took place. He asked for questions before he moved to the financial statements and the opinions he mentioned earlier. Mr. Bell had a question on the findings regarding the timely financial reporting. He read the last paragraph on page 90. He posed the question to Mr. Whitaker. According to his statements at the last Council meeting, did he have a different corrective action plan than the one submitted in this year's draft of this audit. Mr. Whitaker said he had continually looked at this. He did not know Ryan or the process but he wanted to amend what he placed in the corrective action. As they go through this budget process, they were trying to figure out the root cause of the problem. He had amended the statement to say that the County would investigate during the budget development process the need and feasibility for reinstating and funding a staff position that would be responsible for reconciling all general ledger control accounts to subsidiary ledgers or other detail schedules on a monthly basis. When they looked at the recommendation from Elliot Davis, they recommended that all ledger control accounts be reconciled to subsidiary ledgers or other detail schedules on a monthly basis. They would look into that as a possible solution in this process. He said, based on the statements he made at the last meeting, that they would use Elliot Davis' recommendations and other findings of their processes that they currently lacked. For example, develop and execute a formal internal policy and process with an annual audit project charter that would include a schedule of events and activities, deadlines and due dates to directly address the timeliness, a calendar combining all of the important events and follow throughout the closing process. He also included a formal execution process that would include bi-weekly accountability meetings to discuss performance on completing tasks and activities from a formal and comprehensive closing checklist - the internal processes and the potential for staff to deal with the timeliness issue. Mr. Bell said the reason he asked the question was due to the finding during the audit and to ensure it did not happen again. They could not afford this situation ever again. Mr. Pauley asked Mr. Miller if aside from the audit being late if there were any illegal issues or anything else wrong with the audit. Mr. Miller said absolutely not. They were required under their professional standards to report things of that nature. There was no fraud, noncompliance issues, no malicious activity, no intention to violate State law or regulations. If they came across any such event or action, they were required to report that to them immediately. Mr. Pauley said he appreciated that because it seemed like employees were thrown under the bus because of this audit so he wanted to make sure that he put on record that besides it being late that it was nothing illegal that the employees did for the County. Mr. Miller said there was nothing illegal that they were aware of. Mr. Bell asked Mr. Pauley if he was suggesting that someone said they did something illegal. Who did something illegal. Mr. Pauley said he just asked if something was done illegally. Mr. Bell said ok, he thought he may have known something that they did not. Mr. Pauley asked Mr. Miller if there was a State penalty for not closing the books on time. Mr. Miller said there was a code of laws (he referred to page 90). He said he would have to revisit and asked if he was referring to financial penalty. Mr. Pauley said yes sir. Mr. Miller said he would probably have to revisit that code section 49150 of the South Carolina Code of Laws. He believed what he came across when he pulled it up, it did not mention a specific dollar amount. He referred to the "effects" section of the findings it talked about withholding funds. Mrs. Greene said it was on page 89 and the copy that she had stated per section 49150 of the South Carolina Code of Laws, if the audited financial statements were not filed timely or within the time extended for filing them, funds distributed by the South Carolina Comptroller General's office to the County must be withheld pending receipt of the audited financial statements. She said it seemed as if the funds would be held until the audited financial statement was received. That seemed to be the only penalty and she asked Mr. Miller if she was correct. Mr. Miller said yes ma'am - that was correct. He did not recall seeing a percentage or dollar amount in that code section. Mrs. Greene asked Mr. Miller how frequently did he respond to questions and comments from Council in terms of outside of the presentation process while he was in the midst of an audit. Mr. Miller said usually the communication takes place at the very beginning and they were required to do that with every audit engagement. They typically scheduled a time/meeting with the Chairman of Council to talk about the overall scope of the engagement, the time line, and the planning. During that time, they would ask if there were any concerns or fraud. It was basically a preliminary discussion about how the year was going. When they present to Council, those were the two that were required. More would be required if something was discovered – like fraud or a material noncompliance issue/violation or something that would warrant those in charge of government's attention. The standard was typically twice – the beginning during the planning phase of the audit and what he was doing that day. Mrs. Greene asked if at any time was he contacted by a

Councilperson for information about this audit. Mr. Miller said he was. Mrs. Greene asked of his response in terms of that contact. Mr. Miller said he gave him an update on where they were with the audit and the expected delivery date at that time, with the assumption that all would go as planned. He said that was probably back in mid to late February when he received the call. Mrs. Greene said according to his statement, was it not the role of the County Administrator and their Controller to handle those kinds of questions. Mr. Miller said yes, typically the auditor would speak directly with finance and the County Administrator. He did not know the rules on their side in terms of reaching out. Mrs. Greene asked if he found it unusual – based on their common practice and making sure that you had an independent audit. Mr. Miller said it was infrequent. He said he was aware of the article and was not leaning one way or the other. Mr. Pauley asked Mr. Miller if that Councilperson tried to persuade him in any way to do anything wrong with the audit. Mr. Miller said absolutely not. Mr. Pauley asked if that Councilperson basically asked for information about the audit. Mr. Miller said yes, just an update. He wanted to know the standard process – when the books would typically close for local government and he gave him that period, which was October. He also told him when they received the trail balance, which built the financial statement and without that, there was no headway. Other than that, he was not persuaded in any way. Mr. Pauley said thank you. Mr. Bell said that it was infrequent that someone would do that. He said he and Ms. Bass talked about the information on page 5 of their handout regarding the general budget. He wanted to make a point – he did not really have a question. He read: the general fund actual revenue was less than the final budgeted amounts by approximately $331,000. He said last year that amount was $1.4 million and the year before that the amount was $1.6 million. The audit from the previous year included some definitions as to the reasons. It looked like it was related to VC Summers. As they looked back at the audit and the budget, they always over project versus under project. They always project over the amount they would actually receive. He had asked Ms. Bass to look at that. He looked at the fund balance, which showed where they were and in 2017 the fund balance was $17.3 million according to the audit. In 2018, it was $13.2 million according to the audit. In 2019, it was $10 million according to the audit. In 2020, it was $6.2 million (he was referring to the unassigned fund balance) and in 2021, it was $3.2 million. He said what that really showed was the amount spent from the fund balance from 2017 until now. He read again from the budget book: the general fund actual revenue was less than the final budgeted amounts by approximately $331,000 primarily due to less than expected collections of property taxes. General funds actually spent was less than the final budget amounts by approximately $4.6 million. This variance was primarily due to department directors making informed decisions with regard to purchases, employee staffing, turnover and freezing unfilled positions. In January 2021, they received a lot of heat for trying to do some of those things. Ms. Bass also reminded him that they said they would try to do some things to try to save money in the budget and that was staffing and finance. The work they had done around this budget process had been significant and had paid off. As they go through the budget and audit (which was why it was strange to him that Mr. Pauley made a suggestion of fraud because it had never been a concern of this Council) the work could be seen as it related to the budget process and spending and all the things they were trying to do. It would also show that while they were spending money from the fund balance, they were also spending money from the bond. He has said for all deliberate purposes, the fund balance was depleted. It showed itself in this audit – look at the numbers. When the tabloids write, they could understand what they were writing.

Mr. Miller addressed pages 1-3 of the audit, which stated their opinions and a summary of the overall results. Page one in the report basically stated that they audited each of their opinion units – the major funds, component units, getting the non-major funds collectively and they issued an opinion on each one. It also talked about management's responsibility. Management was responsible for preparing the financial statements – that they were fairly presented, materially correct and prepared in accordance with generally accepted accounting principles. They were also responsible for designing and implementing internal controls that would help the financial statements to be materially correct. The auditor's responsibility was to express an opinion on the fair presentation of these financial statements as a result of the procedures that they performed and they were required to perform such procedures in accordance with government auditing standards. He referred to the opinion paragraph and stated they issued an unmodified opinion, which was known as a clean opinion, on the fair presentation of the financial statements and note disclosures. He referred to the next page, which was the required supplementary information section. It was required by government auditing standards and for Fairfield County the required supplementary information would include the management discussion and analysis. It provided detailed and general information about the County as a whole. As a result of GASB 68 and GASB 75, they had the schedules that related to the County's proportionate share of the Statewide pension plan, pension liability and their own single employer retiree health care plan. They did not express an opinion on the fair presentation of the schedules – they were not required to. They made sure that everything made sense, that the numbers tied to the actuary reports, that the information in the MD&A referenced properly to the footnotes and the financial statements themselves and that they were prepared concisely in accordance with the standards. The "other information" section included the budgetary schedules, general funds, special revenue funds, and individual and combining non-major funds/statements. The ultimate one was the scheduling of expenditures of federal awards. Since Fairfield County received and spent more than $750,000/year in federal grant money, they were required to comply with the uniform guidance and have a single audit so there was the scheduling of expenditures of federal awards and compliance section of the report. They were required to give an "in relation to" opinion on that schedule and the other non-major funds schedule as it related to the financial statements as a whole. All of those were clean and materially correct based on the procedures they performed. The final paragraph referred to the "yellow book" report, which was the internal control over finance report and was required by auditing government standards. Mr. Miller referred to page 81, which was the report on internal control over finance reporting in accordance with government auditing standards. They were not required nor did they express an opinion on the operating effectiveness of the County's internal controls. They relied on the County's internal control structure, the business processes, the people they had in place, previous years of experience – they used all of those things collectively to design their audit procedures over internal controls and compliance with State laws and regulations. If they became aware of anything, they would mention it. This report referenced finding 2021-001, which related to the timely finance reporting (the deadline was January 1). That was the only thing they found that warranted being in the report. He referenced the next report – the single audit report (the federal grant compliance report). He said the two major programs they tested this year (each would be different each year) were the Coronavirus Relief Program (about $865,000 in federal funding) and the Airport Improvement Program. There were no findings as a result of auditing Fairfield County's compliance and internal controls over compliance with those programs. However, the uniform guidance required them to reference any State compliance findings within the report. They referenced page 84 the same finding as it related to the State statute, which was a requirement from the uniform guidance - it should not be misleading. The federal grant award audit was clean. Mr. Bell asked as he reviewed the CARES Act funding, if he found any ways that future funding could be used more beneficially. Mr. Miller stated he felt the records he reviewed were pretty strong. He used as an example the account coding on all of the invoices, the specific general ledger account code (maybe for safety, masks, plexi-glass) were all signed by 1-2 employees. He thought the records looked great and the internal controls were documented. Mr. Bell agreed and clarified his question to ask if he saw any opportunities for the County to have received more funding. Mr. Miller said no, he would not know. He said regarding the finding of the timely reporting, if it had not been a State statute/compliance violation, it would not have shown up in the report. He then referenced page 89, the Schedule of Findings and Question Costs, it showed a significant deficiency related to the financial statements - the non-compliance piece, the two "yes" columns were for the same issue. The reason "C" was checked "yes" was again related to a State statute. There were no material weaknesses or significant deficiencies under the "Federal Awards" section. As well in that section, it stated that any audit findings were required to be disclosed in accordance with the code of federal regulations (the 200-15 6A), which was why the "yes" appeared in the single audit opinion. Mr. Bell asked him, for the sake of the audience, to talk about the importance of the unmodified audit. Mr. Miller said it meant they did not have to modify it for any material misstatement or anything fraudulent. They had a scope limitation and were able to give an opinion on the financial statements. In terms of getting bonds or future financing, it was a big deal to have an unmodified/clean opinion. He did not anticipate the bond rating agencies "dinging" the County and the same thing with federal grantors. Since the County had an unmodified opinion on the major programs, the risk of not obtaining future funding was little to none. If the County had a modified opinion on the federal awards and costs that were not allowable, there was a good chance they would have to reimburse the federal government for those grant funds and they could cut future funding. He referred to section 3 on page 90, which referenced the same finding above. The summary schedule of prior audit findings relates to any findings from the previous year. Corrective action should have been taken (hopefully immediately) and at the next audit, they make sure there were no repeat findings. Although he was not a part of last year's audit, based on his reviews, discussions with the team and the records they looked at, those findings were not repeated. The last page (Corrective Action) was required for electronic submissions to verify the corrective action plan related to the current year's financial statement findings. He said Mr. Whitaker mentioned earlier revising the corrective action plan and although it was already signed off on, they could edit this corrective action plan paragraph and the "Views of Responsible Officials" section and send back a new copy. Mr. Bell thanked him and asked if everything had been submitted to the State Comptroller's office. Mr. Miller said as of March 31st, they were done. He said they did not submit directly to the Comptroller's office – that would come from the County's finance department. Mrs. Bass said it was submitted on Friday. Mr. Pauley asked Mr. Miller if the scope of the audit differ from the audit plan. Mr. Miller said not that he was aware of - he was not involved in the planning. For example, the Airport Improvement Program was based on the new OMB compliance supplement and was automatically qualified as high risk due to COVID. That was one change they did not anticipate and the other could have been the back and forth with the Dominion settlement – the VCC Summer thing. He was not privy to those conversations that took place during planning because he did not come on board until the October/November timeframe. Those were probably the two biggest things – there was another transaction that they had to research which was the building held for sale. Mr. Pauley asked about the $99 million settlement and if it was something different. Mrs. Greene said that was what he was talking about and Mr. Pauley said ok. Mrs. Bass said on May 10, 2021, a resolution was passed to accept the settlement although the final settlement agreement was not executed until July, which was in the new fiscal year. They had to comb through that very carefully to determine if it was a '21 item or a fiscal '22 item. Mr. Bell said it was decided that it was a '22 item and Mrs. Bass agreed. Mr. Bell thanked Mr. Miller for the presentation and Mr. Whitaker and Mrs. Bass and their staff for their work. He said they were overjoyed that the audit was complete. Mrs. Bass reminded Council to submit any operational type questions to Ms. Ashford and they would compile a formal response. Mr. Whitaker thanked staff for completing the task. They learned a lot and he appreciated the hard work – they would get better. Mr. Bell said he did not think they could go through this again

5. ADJOURN

At 6:53 p.m., it was motioned by Councilwoman Roseborough, seconded by Councilwoman Greene, to adjourn. ***The motion carried unanimously 6-0.***

KIM W. ROBERTS, Ed. D.
CLERK TO COUNCIL

Moses W Bell

MOSES BELL
CHAIRMAN