# CACHE COUNTY AUDIT COMMITEE - DRAFT

The Cache County Audit Committee convened a meeting on April 7, 2022 at 2:00p.m. in the Cache County Historic Courthouse, County Council Chambers, 199 North Main, Logan, Utah.

**MEMBERS PRESENT:** Chair Karl Ward, Councilmember Paul Borup, Councilmember Barbara Tidwell, Citizen Representative Alan Allred
**MEMEBERS EXCUSED:** County Executive David Zook
**STAFF PRESENT:** Attorney John Luthy, Clerk/Auditor Jess Bradfield, Treasurer Craig McAllister, Financial Analyst Philip Noble, Chief Deputy County Executive Dirk Anderson
**OTHER ATTENDENCE:** Jason Sleight

**Call to Order –** Chair Karl Ward

**Action Items**

1. **Approval of Minutes (February 3, 2022)**
   **Action:** Motion made by Alan Allred to approve the minutes with corrections from February 3, 2022; seconded by Chair Karl Ward.
   **Motion passes.**

**Discussion Items**

1. **County Clerk/Auditor Report**
   Cache County Clerk/Auditor Jess Bradfield reported regarding ongoing audits. An Investment audit has been finished and reported. Finance audit (title 3) was performed prior to state law SB 162 and the resulting ordinance will only require one term to be replaced. There is a current audit of the Senior Center underway; issues in code have been identified, including a committee that is required by code but not currently implemented. Another current audit regarding policies of the Finance Office, as well as a three-year financial review of county finances to look for fraud, waste, and abuse. Future audits will include an inventory review of equipment at the Road Department.
   Councilmember Paul Borup asked County Clerk Jess Bradfield what audits have been completed by the Clerk/Auditor office during Jess Bradfield's tenure as County Clerk. County Clerk Bradfield responded with a list of previous audits, including: County Recorder; County Executive; 2021 and 2022 fraud risk assessments; a controls audit regarding county investments; a revenue and finance code audit; and current audits for the Senior Center and the Finance Office. A Sheriff's Office audit had been requested by an inmate and it was determined that the inmate did not follow appropriate process requirements. There had been discussion with the County Executive a communications audit. Councilmember Paul Borup asked when discussion of this audit would have begun. County Clerk/Auditor Jess Bradfield stated that it was briefly discussed during the last meeting on February 3, 2022, or in the December 2021 meeting. Councilmember Paul Borup expressed concern that this did not show up in the minutes; other Councilmembers could not recollect when official discussion of the topic commenced.

2. **External Audit Engagement: Jones-Simkins**
   Jason Sleight of Jones-Simkins presented information regarding audits of County financial statements. Mr. Sleight opened up discussion to the Committee about topics regarding audits and any other information that may be pertinent.
   Discussion first revolved around Federal money for COVID relief that is left over post-pandemic and what it could potentially be used for.
   Jason briefly discussed Federal and State compliance requirement changes in auditing practices.
   Councilmember Barbara Tidwell asked if auditors ever compare County code to State policies; Jason Sleight responded that they ensure that County code is in accordance with State policy, but it is not a detailed examination. Councilmember Paul Borup expressed his desire to see more guidance to ensure compliance with code in budget allocation; he expanded on his concern by stating that, in his opinion, he sees misallocations of funds and he would like to get more guidance for the County so that County officials are aware of best practices. Representative from Jones-Simkins affirmed that State code requires budgeting to be done at the department level.
   Councilmember Borup expressed a desire to have an independent internal auditor conduct County audits, emphasizing that the desired independence of said auditor. County Clerk/Auditor Jess Bradfield reminded the Committee that as County Auditor his position is that of an independent auditor. Alan Allred and Councilmember Paul Borup disagreed, stating that Clerk responsibilities make the Clerk/Auditor position not an independent auditor position. County Clerk Jess Bradfield spoke to refute this. Councilmember Paul Borup asked if the Auditor holding Clerk functions could be considered independent. County Attorney John Luthy reminded the Committee that Karl Ward is the Chair of the meeting. Chair Karl Ward stated that

this issue was being approached in a confrontational manner and that the Committee should continue with the general audit report.

Jason Sleight from Jones-Simkins asked if there is concern of fraud. Councilmember Paul Borup expressed concerns while not wanting to go so far as to say "fraud." County Clerk Jess Bradfield spoke regarding the County's very low risk rating based on state required fraud risk assessments.

Jason Sleight asked about any major new capital projects. The road shop, CJC building and animal shelter were mentioned.

Jason Sleight asked about any new debt; there was none to report.

Jason Sleight asked if there are any new department heads who might be involved in cash receipting or financial operations. The Clerk's Office was examined last year, and did "great." The Executive's Office may still need to be looked at because it has a new county official.

Discussion of the ambulance fund being added to the General Fund as part of the fire fund as the new fire and ambulance fund.

Representatives from Jones-Simkins asked if the County has any relationships with foundations. Councilmember Barbara Tidwell mentioned the nonprofit Cache Celebration of Women's Suffrage, of which the County is not a member, but to which the County has contributed funds. Jason Sleight recommended exercising caution and using best practices when opening bank accounts with the County tax ID number.

Jason Sleight commented that the County's financial statements are well presented.

The bankruptcy impact of Union Pacific was brought to the attention of the Committee by Treasurer McAllister.

Jason Sleight stated that they could expect to give a final report sometime in June or earlier. It was discussed to give this report the first Thursday of May or the first Thursday of June. Chair Karl Ward recommended meeting for the final report the first Thursday of June.

Discussion arose about the Audit Committee meeting minutes. County Clerk/Auditor Jess Bradfield commented that the Clerk/Auditor Office has begun the process of taking over responsibility for keeping and posting County Council meeting and Audit Committee meeting minutes. The process was delayed due to so many other compliance updates that Bradfield has been required to conduct since becoming Clerk/Auditor.

Councilmember Paul Borup asked about when a contract straddles two years which budget year the contract should be included in. Jason Sleight responded that contracts are included in the budget year in which the service in the contract was performed.

Councilmember Barbara Tidwell commented that the secretary treasurer is under the impression that the bank account set up for funds for the Cache Celebration of Women's Suffrage was set up with the County's tax ID number. Jason Sleight mentioned that that is something that may need to be looked into; he recommended not maintaining that practice moving forward.

**3. Auditor and Audit Committee Responsibilities and Functions**

Chair Karl Ward introduced this item on the agenda so the Committee can be clear on responsibilities and functions. He noted that he agrees that the Clerk/Auditor position cannot be considered a fully independent auditor because of the attached responsibilities of the Clerk office. He expressed that the Committee should give direction to the auditor of what they would like him to do as he performs his duties. Opened for discussion.

Chief Deputy County Executive Dirk Anderson brought up that just because the offices of Clerk and Auditor are combined, that does not necessarily imply the auditor is not independent. Alan Allred commented and discussion ensued based on this point of what is considered "independent" for an auditor and whether or not the Clerk/Auditor falls under this characterization. Chief Deputy County Executive Dirk Anderson mentioned that because the Clerk/Auditor is an elected position the people can hold the auditor accountable for performing independent audits. Alan Allred rebutted that the Clerk/Auditor could not be independent because of the fact they are elected and part of the organization rather than separate from it. Chief Deputy County Executive Dirk Anderson presented the question of how the people would view the legislative branch hiring an external auditor that could be or could be seen as having just as little independence as the Clerk/Auditor. Discussion continued on the question of "independence."

County Attorney John Luthy asked if an elected Auditor would be considered any more independent than an elected Clerk/Auditor. He stated that under State code, the Council, Executive, and Auditor all have auditing authority and that an external audit happens annually. He read from the code regarding the purposes and powers of the County Audit Committee.

Councilmember Paul Borup expressed desire to expand the scope of the external audit to gain additional insight from the audit.

County Attorney John Luthy read again from the code, stating that the County Audit Committee can review the scope of the audit and that expansion of the scope of the audit is directed by the County Council, Executive, and/or Auditor.

County Clerk Jess Bradfield spoke in response to concerns about the independence of the Clerk/Auditor, defending the structure of the Clerk/Auditor office as an auditor elected by popular vote and independent of the Legislative or Executive branches of County government. He noted that despite the combination of the Clerk and Auditor's offices there are ways for the auditor to be held accountable by the other branches. He expressed frustration at how the Committee responded to or received past audits and reasserted that his goal is to work with the Committee. He presented a longstanding offer to share auditing power between the Legislative, Executive, and Auditor offices by sharing his auditors as independent auditors that answer to the County Audit Committee.

County Attorney John Luthy affirmed that County Clerk/Auditor Jess Bradfield's legal analysis is correct. He amplified this by describing the independent statutory to order audits held by the Council, the Executive, and the Auditor, and that the Audit Committee acts in an advising, not directory, role with the Council, the Executive, and the Auditor and their respective, independent authority to order audits.

Councilmember Paul Borup asked if it can be considered a truly independent outside audit if the County Auditor hires an outside auditor who has a relationship with another department. Borup asked how the Clerk/Auditor found the Certified Fraud Examiner (CFE) who was contracted; County Clerk/Auditor Jess Bradfield responded that the CFE was found through NACO (National Association of Counties). Councilmember Paul Borup asked if the CFE has a relationship with anyone else in the county, to which County Clerk/Auditor Jess Bradfield responded "No, not to my knowledge."

Councilmember Paul Borup continued to ask if the CFE had a relationship with anyone in the County and County Attorney John Luthy questioned his meaning. Councilmember Paul Borup asked why a CFE was hired out of Missouri, to which County Clerk/Auditor Jess Bradfield responded that it created more independence. Councilmember Paul Borup again asked how this CFE was found and if they know anybody at Cache County. County Clerk Jess Bradfield answered by saying nobody that was audited had a relationship with the CFE Kate Becker; to his knowledge, only Economic Development Director Shawn Milne knows Kate Becker, and that he knows her through NACO.[1]

Chair Karl Ward asked Councilmember Paul Borup what the purpose of the questions were. Councilmember Paul Borup responded that he, as a member of the Committee, wants an independent auditor. Count Attorney John Luthy reminded the Committee that the Committee cannot have an auditor. Alan Allred commented that the Council can designate and make all decisions on audits, to which Chair Karl Ward and County Attorney John Luthy objected and corrected. County Attorney John Luthy read the Council's authority to order an audit straight from the code, asserting again that the Executive and Auditor can do so as well. He affirmed again that the Council, Executive and/or Auditor may order and direct the scope of an audit independent of the other branches of government. Chair Karl Ward commented on the Council's enumerated powers regarding the code and the budget and how it does not have oversight over the Clerk/Auditor or the Executive. Chief Deputy County Executive Dirk Anderson added that oversight can be applied to an extent by ordering an audit. County Attorney John Luthy and Chief Deputy County Executive Dirk Anderson both commented on the oversight authority of Council and Executive.

Councilmember Paul Borup asked Chair Karl Ward if he would be open to a motion to bring a discussion before the Council regarding hiring an independent auditor. Chair Karl Ward asked for clarification for what purpose this hire would happen. Councilmember Paul Borup responded that it would look into financial transactions and consistency within County Budget. County Clerk/Auditor Jess Bradfield asked if Councilmember Paul Borup was referring to a long-term hire. Councilmember Paul Borup affirmed that this would be a hire for an auditor who reports to the Council and that the Council will direct the scope of that audit and determine length of contract. Clerk/Auditor Bradfield asked why the Council would not use the Clerk/Auditor's internal auditors. Bradfield cautioned of the Council taking lobbying and now auditing out of the authority of other branches of government and adding to its own authority. Discussion ensued about the Council ordering and taking on its own audit. Clerk/Auditor Bradfield stated that such an action hinders intergovernmental trust. Chair Karl Ward stated that the Council would add discussion of hiring an independent auditor to its agenda for the next Council meeting. Discussion continued about structure, independence, and audit organization.

[1] See appendix B for more information regarding conflict of interest disclosure examples for Audit Committees and how they can assist with maintaining independence.

County Attorney John Luthy commented that the past Auditors did not do much in the way of internal auditing, something that current Clerk/Auditor Jess Bradfield has done differently, adding that the Council does have authority to order an audit. Discussion ensued about the lack of available audit reports from the previously contracted internal auditor.
The Committee concluded the meeting.

**4. Open Items**

**Next Scheduled Meeting**
Thursday, May 5, 2022 at 2:00 p.m.

**Adjourn** Chair Karl Ward adjourned the meeting.

# Appendix A – Referenced Auditor Proposal

## Audit Committee

### Proposed Charter

The purpose of the Cache County Audit Committee is to:

- ❑ Mitigate Financial Fraud, Waste and Abuse;
- ❑ Ensure policy and code is observed,
- ❑ Conduct planning studies and make recommendations to the County Council and Executive relating to financial, administrative, procedural and operational plans, programs and improvements in county government. (USC 17-19a-206), (CCC 2.08.080h)

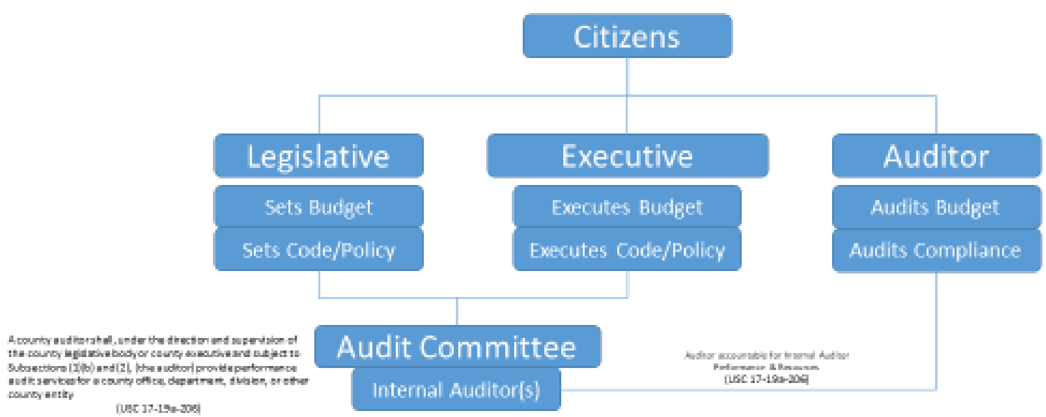
### Proposed Composition

- ❑ 2 – Executive and Chief Deputy
- ❑ 3 – County Council Members
- ❑ 1 – Citizen Appointee proposed by Executive & approved by Council

### Proposed Terms

- ❑ Executive & Chief Dept. – Length of term
- ❑ Council – 2 Year Staggered Appointments
- ❑ Citizen Appointees – 2 Year

## Cache County Audit Committee

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[2] Originally presented by Clerk/Auditor Bradfield May 6, 2021

## Appendix B – Example of Conflicts of Interest Disclosure for Audit Committees

Under the Related Person Policy, the Audit Committee (or Chairperson of the Audit Committee if between meetings) must approve Related Person Transactions. In its review, the Audit Committee considers all available relevant facts and circumstances of the proposed transaction, including (i) the benefits to Selective, (ii) the impact on a director's independence, (iii) the availability of other sources for comparable products and services, (iv) the terms of the transaction, and (v) the terms available to unrelated third parties or employees generally. No Audit Committee member may participate in any review, consideration, or approval of any Related Person Transaction in which such director or any of his or her immediate family members is the Related Person. The Audit Committee only approves Related Person Transactions that it considers are in, or not inconsistent with, the best interests of Selective and its stockholders.

***Director Independence***

Our securities are listed on Nasdaq, and we use the standards of "independence" prescribed by rules set forth by Nasdaq. Under Nasdaq rules, a majority of a listed company's board of directors must be comprised of independent directors. Under Nasdaq rules, a director will only qualify as an "independent director" if, in the opinion of that company's board of directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out a director's responsibilities. Our Board of Directors has determined that all current directors and director nominees are independent under Nasdaq and SEC rules and regulations – except Messrs. Marchioni, Murphy[1], and Rue.[2] In making its determination, the Board considered disclosures each director made related to various transactions, relationships, or arrangements involving Selective. Disclosures by the following four directors required analysis:

John C. Burville: In determining that Mr. Burville is an independent director, the Board considered that Mr. Burville's daughter is an analyst for AXA XL Bermuda ("AXA"), which has a commercial relationship with our insurance subsidiaries. The Board determined that the commercial relationship is not material principally because (i) our payments to AXA were approximately 0.0003% of its 2021 consolidated gross revenues, and (ii) neither Mr. Burville nor his daughter has any involvement with these transactions. Accordingly, the Board determined that this arrangement does not affect Mr. Burville's independence.

Terrence W. Cavanaugh: In determining that Mr. Cavanaugh is an independent director, the Board considered that Mr. Cavanaugh's son is employed as Director, Corporate Risk and Broking of Willis Towers Watson ("WTW"), which has commercial relationships with our insurance subsidiaries and employee benefit plans. The Board has determined that these commercial relationships are not material because (i) the payments made were approximately 0.037% of WTW's 2021 consolidated gross revenues, (ii) we have not engaged the services of the division for which Mr. Cavanaugh's son works, (iii) Mr. Cavanaugh's son had no involvement with the transactions with WTW, and (iv) the amount of revenue generated for WTW through these arrangements is not material to WTW. Accordingly, the Board determined these arrangements do not affect Mr. Cavanaugh's independence.