

TOWN OF DEWEY BEACH
Audit Committee Meeting DRAFT Minutes
August 17, 2018

On Friday, August 17, 2018 the Audit Committee met with Roy Geiser of TGM Group (by phone) beginning at 9:00 a.m. to discuss recommendations based on the second phase of the recently completed Agreed-Upon Procedures Report (AUPR) for all town hall departments and to review the March 31, 2018 Audit Communications letter.

Attendees were Chair Larry Silver, Committee members Steve Huse, Diane Hanson, Mayor Redefer, Commissioners Dale Cooke, Gary Persinger, and Paul Bauer, and Town Manager Scott Koenig. Also attending were members of the public: Zeke Pryzgocki, Bob Frederick, Gary Talley, David Moskowitz, Nancy McCloskey (former financial manager for the Town), Joy Howell, and members of the press.

Larry began by giving out copies of the Final Draft of the Audit Communications letter (management letter) and recorded who received copies.

Roy reviewed key components of the management letter and things that may be different than in the past. The findings are on pg 10:

Finding Number 2018-001 Segregation of Duties:

Need individuals performing different functions to avoid misappropriation of assets and to identify accounting errors on a timely basis. This is a repeat finding and will likely continue due to the small size of the town and limited staff.

Findings Number 2018-002 and 003: Timely and accurate financial reporting and account reconciliation.

Roy strongly suggested that we need improvement here including staff training.

Finding Number 2018-004 Reporting Lines:

Communication lines have been broken down in the past and need to be corrected. It may take a year or longer to correct this problem. Commissioner Persinger has some recommendations to correct these problems.

LESO Question

Commissioner Persinger raised a question regarding generators at the recent town meeting. If the town must hold property for more than a year to be capitalized, the ship date for the generators was March, 2017 which technically puts it into the March, 2018 year for capitalization. Discussion ensued as to when it becomes town property.

Review of the Letter to Audit Committee

Overall letter and summary of what needs to be done over the next year starts on p 15.

Police Dept

Department heads need to discuss how to use this report to improve communications and tracking of funds.

Lifeguards: Need policy and procedures to ensure cash donations are properly accounted for.

Dewey Beach Patrol Competition Team Account:

The off-books account needs to be under town control, which it now is. As previously reported, there is no record of a tax exempt status for this account. (The fourth sentence needs some clarification, which was noted by TGM.)

Payroll:

We need procedures to assure a signature from department heads to indicate approval of time cards for accuracy and control of overtime.

Severance payments need to be included on W-2s and proper income taxes withheld.

Fund Balance Reporting

Establish categories for classification of funds.

Investment Policy

Usually towns stay in CDs instead of more aggressive investments for security. And there should be no investments of more than 10% in one stock. David Moskowitz, Chair of the Investment Committee, said his main concern is that there was no contact with him to discuss this. David passed out an explanation of the current investment policy and the investments. His report is attached. Larry will meet with David after the meeting to discuss.

Grant Related Accounts

Need better procedures to track grant funds.

Recommendations Regarding the AUPR

There is "clearly dissatisfaction with the level of research on the LESO program," according to Commissioner Persinger. He also stated there also is a need to determine needs for the equipment and disposal of items that are not useful. He suggested that the Town may need to establish a threshold of value other than the \$5000 limit used previously as too much of the equipment was not included in the AUPR.

Larry said that the limit could be adjusted for this purpose but, the \$5,000 per item is currently the Town's level of capitalization. We need to have some discussion about this to determine how to proceed. David Moskowitz suggested that the money from the sale of equipment go toward the cost of the AUPR.

Larry explained that the Town decided not to have a forensic audit done at this time but the town can still do one. The Town decided to limit the AUP time to 5 years but could have gone back many more years. It was a judgment call.

How does the hiring of Luff and Associates resolve some of the issues with the audit and limiting the Town's risk? Roy's response was that it helps some. Commissioner Persinger questioned if we can revisit the decision to hire an outside firm vs. an internal financial manager. Roy's response was that it depends on how the Town uses the firm. Once the General Ledger is under control, the Town will be in better shape.

Commissioner Bauer asked how much it would cost to have a full segregation of duties. The response was that it would probably be about \$50,000.

Nancy McCloskey commented that: This particular weakness showed up every year in the audit. The financial person should over see this and the Town would bring in someone from outside quarterly to do account reconciliations. Roy agreed that might be a logical compromise without costing the town \$50,000 per year. Commissioner Persinger stated that whatever we did may not completely resolve the problem but there is still a lot of work to be done.

Roy will be meeting with Scott and Luff and Associates next month to work this out.

Commissioner Bauer asked about how much a forensic audit might cost. It was discussed that this is still a possibility.

Commissioner Bauer also asked if barter deals trigger more questions and concern. Roy's comment was that at some point you need to draw a line in the sand. Commissioner Cooke said he still sees no illegal activity.

Licenses:

Larry stated that there is a concern that people are not buying the required licenses for business or rental activities. You are never going to have 100% compliance on buying licenses and payment of taxes but he felt that he had an obligation to bring this up.

Further discussion of recommendations:

Nonprofit status of lifeguard funds: Scott considers this issue closed as it has now been transferred to the town.

Steve Huse stated our purpose is to limit financial risk and that going further will not limit any potential risk.

Diane brought up why we have so much equipment and especially equipment that does not appear to be usable for police work and that she hopes Scott will research/evaluate this further. Also by what authority does any employee have to sell or barter equipment such as vehicles? Scott is working on policies such as how do we replace equipment when they need to be updated/ upgraded.

Motion to adjourn by Steve, seconded by Diane. Motion carried unanimously.

Respectfully submitted by committee members Diane Hanson and Larry Silver

Upon reading the Town of Dewey Beach Audit report, the Auditor's made several errors in regards to the investment policy. What's concerning is not the auditor's error, but there was no follow-up with the investment committee to inquire/alert them there was an issue. If I didn't take initiative to look over the audit report after all the news headlines I wouldn't have known!

Issue: Concentration of Credit Risk - "As of March 31st, 2018, the Town held one stock with a value of approximately \$130,000, which is greater than the 10% concentration limit and is in violation of its own investment policy.

Response: This is an incorrect reading of the investment policy. It says "No more than 10% of the equity portfolio may be invested in any one company..." The \$130,854 is not invested in a stock but a mutual fund. The fund:

"Brown Advisory Small-Cap Fundamental Value Fund" is made up of many small-cap stocks ("companies"). From a marketwatch.com analysis no stock exceeds 4.76% of the Holdings of the fund. 4.76% *\$130,854 is \$6229 or well under such threshold put in the investment policy.

Issue: The short-term investment funds were all held in cash, however the policy's target is 40% cash and 60% fixed income.

Response: The Brown Advisory website shows Treasury Obligations (which can be considered "Fixed Income" per the Investment Policy) as Cash. However if you look the underlying holdings, you will see Treasury Obligations. Per Brown Advisory: "We have been managing these accounts with 40% cash 60% 3 Month T-Bills. Unfortunately the system records T-bills as cash and not fixed income as can be seen on the attached Asset Allocation PDF."

Issue: "The Brown Advisory investment accounts are not collateralized and therefore are subject to credit and/or custodial risk."

Response: Using custodial risk in this manner is incorrect. Prior to the Investment Committee (which I have chaired since inception), Dewey Beach had custodial risk. Upon switching to Brown Advisory a few years ago, we added a custodian, US Bank, where such funds are stored.

Best Regards,

David Moskowitz
Investment Policy Chair