

## **TOWN OF DEWEY BEACH**

### **Audit Committee Meeting DRAFT Minutes**

**August 3, 2018**

On Friday, August 3, 2018 the Audit Committee met with Roy Geiser of TGM Group beginning at 9:00 a.m. to discuss the second phase of the recently completed Agreed-Upon Procedures Report (AUPR) for all town hall departments and to review the draft audited financial statements for the fiscal year ended March 31, 2018.

Attendees were Chair Larry Silver, Committee members Diane TenHoopen, Steve Huse, Diane Hanson, and Dennis Trencher; Mayor Redefer, Commissioners Dale Cooke, Gary Persinger, Paul Bauer, and Town Manager Scott Koenig. Also attending were members of the public: Zeke Pryzgocki, Bob Frederick, Eleanor Tyler and members of the press.

#### **Audit of Approved Procedures**

Larry started the meeting by explaining that the AUPR is not an audit but is based on agreed upon procedures between the town and the auditors ((TGM). He then introduced Roy Geiser, TGM partner, to present their findings. Some LESO equipment was sold and some proceeds were received in cash. The summary of known cash is on page 3 of the AUPR. It was brought up by a committee member that this is only an accounting of what is known. Roy's comment was that this is always a problem when you are dealing in cash. At our last meeting we discussed what might be the purpose of a safe in the police department. A surprise inspection of the safe was conducted on April 27, 2018 and mostly found were guns, some of which have been there a long time.

#### **Lifeguard Competition Account**

For Beach Patrol proceeds for their competitions the auditors did not dig through receipts. Some receipts are not readable as they have faded over time. The receipts were shown to Scott who agreed it was not worth the time to review all these receipts. The bank balance in the lifeguards competition account is currently is \$23,046.43. Scott stated that this account is now under the town and a statement is received monthly. Going forward we need to decide if this should be a savings or checking account. Larry asked if the beach patrol was told to not indicate it is a nonprofit when collecting donations. Scott responded that it is now under the town so it is tax deductible and this is no longer a concern. It was brought up that the formation of an account that was incorrectly claimed to be an official nonprofit but was not registered as such should be included in the report. Committee members strongly emphasized that this was wrong and should be addressed. Larry suggested that our committee can meet later to develop recommendations.

## **LESO Equipment**

Roy reported that he and a colleague went to view the LESO equipment off site. Roy has talked with people at the DLA and they were comfortable with assessing the value at 20% of original cost to the federal government due to the age of the equipment. There was some judgment on this but the town and the auditors are comfortable with this assessment of value. Humvees were not on the list because they remain federal property. Many assets are not accounted for because of the town's capitalization policy of \$5,000. (Any expenditures less than \$5,000 is not treated as a fixed asset to be capitalized.) A committee member, Dennis Trencher, then brought up the issue of trust.

Diane T brought up the unaccounted for equipment (this was not defined by Diane T) and several committee members felt this should be addressed. Roy emphasized that one year from the ship date was considered to be the service date and that much of the equipment is of little value.

Roy explained that insured items were coordinated with items in the bullpen, allowing auditors to identify some equipment that had not been accounted for previously. How can you insure something you don't own such as the Humvees? Scott explained that this was for liability only. When one of these vehicles was activated, the police would call Lyons Insurance and say we need this vehicle insured for the next so many days. The question was asked if we were insuring vehicles that were not being actively used. The question was also brought up as to why we have some of this equipment, especially if some of it is of such low current value. That is something that Scott said he will address but was waiting for this report to come out before he dealt with this question. Roy reported that no additional LESO equipment was insured that we haven't seen out in the community.

Dennis T, a committee member asked (the commissioners), "Doesn't it bother you that the beach patrol lied to you about the nonprofit status?" Again the issue of trust was emphasized.

**Review of Draft Audited Financial Statements** (The DRAFT Audit Financial Statements were made available to the attendees.)

Larry explained that the town has two major funds: General Fund and a Special Revenue Fund which is the Beach Replenishment Fund.

Roy continued his report stating that the Executive summary in on pages 7-13 and explained the fund balances on p. 17 as follows:

- Non spendable is fixed assets
- Restricted is generally based on grant requirements or the restrictions on the beach replenishment fund
- Committed is a commissioner decision to set aside funds for various needs
- Assigned is a management decision. (Note assigned for beach safety is the lifeguard competition fund)

Page 19 is basically the revenues less expenditures for the town.

Discussion ensued about the investment policies; the language in our code does not appear to correlate with the investment policies developed by the investment committee and approved by the commissioners. One investment exceeds the limit of 10% or less of the entire equity portfolio. This could be due to an increase in equities value since the original investment, however, these issues need to be addressed.

Rainy day fund is not a recognized category in our fund balance.

Pg 30 refers to the DBE Payments

Pg 32 is in part related to the Town's long term debt

Compensated absences addressed on Pg 32 are an issue that needs to be addressed as well. If several employees retired in the same year, it could pose a major drain on the Town's finances.

The capitalized asset (pg 39) increase related to the LESO equipment.

Pg 50 is the beginning of auditor's report on Internal Control findings. Material weaknesses include a breakdown of communication from departments to the finance department. Elected officials are ultimately responsible for this as they are the equivalent of the Board of Directors in a Corporation. The Audit Committee and Town Manager also must be a part of the internal controls.

Diane TenHoop said she fully understood that the AUPR is TGM's report. However she was extremely displeased with how certain items were characterized and other items which were not addressed at all. Diane also objected to the conduct of certain commissioners. She resigned at this point and left the meeting.

Approval of Minutes:

A motion was made by Steve Huse and seconded by Dennis to approve the minutes of the April 20, 2018 meeting of the Audit Committee

Larry will arrange a follow-up meeting of the Audit Committee to make recommendations based on the audit report.

Prior to the conclusion of the meeting, Larry asked for all of the draft documents to be returned to the auditor, Roy Geiser.

Respectfully submitted by committee members Diane Hanson and Larry Silver.