

AUDIT COMMITTEE MEETING
Council Chambers Meeting Room
October 7, 2024, 1:00 pm

Minutes

I. Call to Order: Chairman Farrell called the meeting to order at 1:00 pm.

Roll Call:

Present: Luke Farrell, Chairman
Andrew Capelli
Pamela Pollitt
Jim Williams
Mark Reynolds

Also Present: Dorota Szubert, *Finance Director*
Stephanie Tillerson, *Town Administrator*

Present Via Zoom: David Irwin, *Mauldin & Jenkins*
Trey Scott, *Mauldin & Jenkins*

II. Approval of Minutes:

A. Minutes of the June 27, 2024, Audit Committee Meeting

A motion was made to approve the June 27, 2024, Audit Committee Meeting. The motion was seconded and unanimously approved.

III. Old Business:

None

IV. New Business:

A. Review and Discussion of the Draft Fiscal Year 2023-2024 Audit

Mr. Scott presented an overview of the Town's FY 2023-2024 audit, reviewing the auditor's report, compliance report, financial statements, and a review of required communications.

Mr. Scott discussed the purpose of the financial audit, noting that the ACFR (Annual Comprehensive Financial Report) is the responsibility of the Town's management. The auditor's responsibility is to provide or express opinions on that financial information based on the audit and that a clean, unmodified opinion was issued on the Town's financial statements and operations as of June 30, 2024.

Mr. Scott stated that the compliance report on internal controls and compliance found no findings or significant issues, which is a testament to the hard work of management and the finance department. He noted that the presented ACFR went above and beyond the minimum reporting requirements of a local government and was awarded the Certificate of Achievement for the 20th consecutive year. He also recommended reviewing the MD&A (Management Discussion and Analysis), which summarizes Town's basic financial statements.

Mr. Scott provided details on the two sets of financial statements: government-wide and fund-level information.

- The net position of the town is \$63.2 million, with a net increase of \$6 million from the previous year.

- Revenues exceeded expenses by \$18.4 million, and the town has a strong financial position.
- The Town's fund balance has grown significantly over the past five years despite not relying on property taxes for revenue.
- The general fund's primary sources of revenue are building permits and business licenses, with no significant property tax contributions.
- General fund expenditures were \$6.7 million, with revenues of \$2.7 million from other funds and a fund balance increase of \$4 million.
- The Town has a strong fund balance, with about two and a half years' worth of expenditures and a healthy liquidity ratio.
- The fund balance history shows consistent growth, indicating a robust financial position.

Mr. Scott stated that the auditors received full cooperation from management staff in the performance of the audit and reported no disagreements with management, no significant issues, and no auditor-proposed adjustments. He also discussed future changes to the GASB (Governmental Accounting Standards Board).

Mr. Capelli, referring to the agreed-upon procedures report, asked whether there was a need for adjustments found during the audit. Mr. Scott confirmed that any adjustments would have been below the materiality threshold and would not have impacted the financial statement.

Mayor Belt noted that 40% of entities were deemed immaterial, and if it were concluded that there was under-reporting across all business license holders, it would still be immaterial. Mr. Scott verified that it would.

Mr. Reynolds added that the top 10 largest business license holders provided gross receipts for verification, with four entities underreporting.

Mr. Scott discussed the scope of the audit, emphasizing that it did not include in-depth control testing of internal controls. Mayor Belt asked if the Town had ever engaged in a separate review of internal controls, to which Ms. Tillerson responded that other than the committee, an external review had not been done before. Mr. Williams explained past issues that led to an evaluation and updating of the control procedures and manual.

Committee Members discussed the importance of internal controls and the need for regular reviews. They engaged in an in-depth discussion of the audit procedures, including transaction auditing, disbursement tests, the limited scope of internal control testing, and the pension information provided in the report.

B. Review of the “Report on Agreed-Up Procedures” Business License Audit

Ms. Szubert began the discussion of the business license audit of gross income verification by stating that the ten entities selected constitute 16% of all revenue reported to the Town and the underreporting amount is small, totaling about \$5,000 out of \$2.5 million collected.

Mr. Scott explained the verification procedures and documentation used to confirm gross receipts, resulting in four entities found to have underreported. The steps that could be taken to address the underreporting further were also discussed.

C. Discussion of the Draft Revisions to the TOKI Accounting Procedures Manual

Ms. Szubert presented a redlined document with the updates to the accounting procedures manual, including changes to reflect current practices and policies.

Mr. Capelli provided feedback on the manual, emphasizing the importance of the segregation of duties and the need to clarify language with respect to guidance and the duties of the Mayor.

Mayor Belt and Mr. Williams engaged in an in-depth discussion of how prior fraud was allowed to take place, the policies and procedures put in place specifically to prevent it from happening again, and the lack of fraud policies or whistleblower processes. Also discussed was cyber risk management and training, the need for a robust risk management policy that is regularly updated, and the role of the audit committee in risk management oversight. The conversation touched on the need for a robust HR policy and the fact that, rather than in-house, the Town has engaged HR consultants.

D. Review of Budget Report

Ms. Szubert stated that overall, for the first two months, the Town's consolidated revenues totaled \$2.1 million, representing a \$1.3 million, 60%, increase compared to YTD totals for last fiscal year, FY2024. This amount accounts for 14% of the total budgeted revenues for the current year.

All the revenues are as expected at the beginning of the fiscal year. Since this report is prepared on a cash basis, the majority of tourism-generated revenues reflect only one month of collection. The primary contributors to this positive variance include building permits, business licenses, and environmental services. When comparing the same period last year, building permit revenues show an increase of \$183,000, or 185%. We issued 217 permits this year, compared to 440 through August 31, 2023; however, the significant rise in construction costs has also led to increased permit fees. Additionally, we have issued approximately 160 more business licenses, resulting in an increase of \$322,000, or 311%, over last year. Environmental fees have risen by \$278,000, or 51%, reflecting an increase in annual garbage collection fees.

At the end of August 2024, the expenditures amount to \$1.9 million, representing a \$328,000, or 21%, increase compared to the fiscal year FY2024. This accounts for 13% of the current year's budget. While expenditures are generally in line with the budget, several line items have seen notable increases from last year:

- Employee Cost: Increased \$165,000 or 33% from last year due to an increase in FTEs and annual salary increases.
- Public Safety/Off-Duty Deputies: Increased by \$66,000 or 138%, primarily due to a 38% increase in the hourly rate to \$55, approved in February 2024.
- Waste Management: Increased by \$244,000, or 234%, driven by increased contract cost for garbage collection by Trident Waste.
- Professional Services: Increased by \$61,000, or 158%, reflecting a higher number of legal service engagements.

Committee Members discussed the increase in legal fees, with Mayor Belt indicating they were attributed to the ongoing litigation, retaining outside counsel, and continued legal expenditures relative to a range of issues, including contract review, developing a standardized municipal contract, standardizing RFPs, and a new purchasing requisition ordinance. Also discussed was the possibility of hiring an in-house attorney to handle routine legal matters and reduce costs.

Mayor Belt discussed the need for a robust capital improvement plan and the potential use of Accommodations Tax funds for infrastructure projects like beach renourishment. Further

discussion included the ability of the town to consider offering an additional range of services and whether any public money could be spent behind the gate or on private infrastructure.

V. Chairman's Comments:

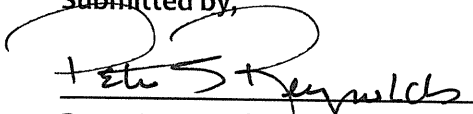
Mayor Belt proposes extending Audit Committee membership terms to two years to ensure continuity and expertise.

Committee Members discussed the importance of having members with financial expertise and the need for more frequent meetings, agreeing to meet quarterly and consider calling special meetings as needed. The conversation highlighted the need to have some things added to policies and procedures that address some more responsibilities embodied in the Charter, as well as the importance of the Audit Committee in providing oversight and supporting the staff's capabilities.

VI. Adjournment:

Mr. Capelli made a motion to adjourn the meeting at 2:29 pm. Mr. Williams seconded the motion, and it was unanimously passed.

Submitted by,


Petra S. Reynolds, Town Clerk

3/17/2025
Date