

**AUDIT COMMITTEE MEETING**  
**Council Chambers Meeting Room**  
**October 10, 2025, 9:00 am**

**Minutes**

**I. Call to Order: Ms. Szubert called the meeting to order at 9:00 am.**

**II. Roll Call:**

**Present:** Peter Ashton  
Paul Curth  
John Wilson

**Present via Zoom:** Luke Farrell, *Chairman*  
William Donovan  
Brad Belt, *Mayor*

**Also Present:** Dorota Szubert, *Finance Director*  
Stephanie Tillerson, *Town Administrator*  
Grant Davis, *Mauldin & Jenkins*  
Kate Russell, *Mauldin & Jenkins*

**III. Approval of Minutes:**

**A. Minutes of the July 7, 2025, Audit Committee Meeting**

***Mr. Curth made a motion to approve the minutes of the July 7, 2025, Audit Committee meeting. Mr. Wilson seconded the motion, and it was unanimously approved.***

**IV. Old Business:**

None

**V. New Business:**

**A. Review and Discussion of the Draft Fiscal Year 2024-2025 Audit**

Ms. Szubert introduced the financial audit discussion, noting that this year presented some challenges due to flooding in the office right before the scheduled audit fieldwork. Despite the office being closed for approximately 2 weeks and the difficulty accessing necessary documents, the finance team managed to prepare everything as scheduled. The auditors were on-site for fieldwork during the first week of September, with subsequent work continuing via phone and email.

Grant Davis, a partner with Mauldin & Jenkins, presented the audit results for the fiscal year ending June 30, 2025. He began by acknowledging the document overload with various deliverables, all marked as drafts pending final approval. The audit deliverables included the Annual Comprehensive Financial Report (ACFR), the Auditor's Discussion and Analysis (ADA) document, and the required SAS 114 communications letter.

Mr. Davis reported that the audit was conducted in accordance with Generally Accepted Auditing Standards (GAAS) and Government Auditing Standards (GAS). Mauldin & Jenkins issued unmodified opinions on all opinion units, including governmental activities as a whole and each major fund. Additionally, they issued a "Yellow Book Report" on internal controls and compliance, which identified no instances of non-compliance or material internal control deficiencies.

Mr. Davis stated that the Town implemented two new Governmental Accounting Standards Board (accounting standards in fiscal year 2025: GASB Statement 101 (Compensated Absences) and GASB Statement 102 (Certain Risk Disclosures), neither of which had a material impact on the financial statements.

During the discussion of significant estimates, Chairman Farrell inquired about the discount rate for pension benefits. Mr. Davis clarified that the state's actuary determines this rate and is currently set at 7%, but the rate is evaluated. Chairman Farrell noted that, historically, 7% has been considered a very high rate over the past 10-20 years, though it may be more appropriate given current market conditions. Discussion continued on the appropriateness of discount rates and their impact on pension liability valuations. Regarding OPEB (Other Post-Employment Benefits), Mr. Davis explained that because the Town has no assets set aside in a trust for OPEB benefits, they must use the prevailing municipal bond rate as the discount rate, which is much lower than the pension rate. It was confirmed that the Town finances OPEB on a pay-as-you-go basis with no dedicated funding.

There was significant discussion of the upcoming internal controls assessment report, whether the auditor had reviewed the draft, and whether any findings reported in the draft impacted the financial statements. Mr. Davis indicated that nothing in the internal control assessment report impacted the scope of the audit. Further discussion included an assessment of the audit and the accounting principles the Town uses, any undisclosed issues the Audit Committee should be aware of, protecting the Town's financial health, any foreseeable changes in the scope for future financial audits, and an implementation plan for the recommended changes.

The Committee identified several typos in the draft report, including a missing word on page three of the auditor's report. Mr. Davis agreed to make corrections and provide clean versions. The Committee agreed to submit any additional comments to Ms. Szubert by October 17th for compilation and forwarding to the auditors. The final audit presentation is planned for the November Town Council meeting.

Chairman Farrell raised concerns about recent press coverage regarding the state treasurer's governance and the discovery or loss of \$3.2 billion in state assets. He asked whether the Town should take additional steps to ensure its investments with the state are secure. Mr. Davis acknowledged the concerns, noting that funds in LGIP are available with 24-hour notice and that the pool undergoes its own audit. However, he also confirmed that LGIP is not backed by the FDIC (Federal Deposit Insurance Corporation) or any underlying assets. Mayor Belt added that this lack of backing had been a concern for constituents in the past.

The Committee engaged in extensive discussion about the Town's investment portfolio, particularly the concentration in the Local Government Investment Pool (LGIP). Mr. Curth noted that approximately \$45 million of the Town's \$46 million in investments is in this single fund, questioning whether this violates the Town's policy limiting investments to 50% in any single security type. Chairman Farrell clarified that LGIP is an investment trust containing hundreds or thousands of securities, making it a well-diversified fund rather than a single security.

Ms. Szubert mentioned that the Town had issued an RFP for Investment Management Services last year, receiving 11 proposals. The Selection Committee ultimately decided to remain with LGIP, considering factors of safety, liquidity, and returns. The fees charged by private management companies were deemed not worth the potential incremental returns, given state restrictions on allowable investments.

Mr. Davis presented financial highlights, emphasizing the Town's exceptional financial position with a net position of nearly \$60 million. Total revenues of \$20 million, versus

expenses of \$13.6 million, yield a \$6.5 million increase, and he also noted an approximately \$5 million net position increase per year.

The General Fund has a fund balance of \$28.2 million, with \$28 million unassigned and available for appropriation, representing 35.4 months of operating expenditures—nearly three years of operations without any additional revenue. Mr. Davis stated he doesn't know of any other government in the state with a functional three-year fund balance, calling it "unprecedented."

Discussion ensued about the appropriateness of such large reserves. Mayor Belt noted this raises philosophical questions about whether current taxpayers are overpaying while saving for catastrophic events. The Town is currently assessing total exposure to worst-case scenarios, such as Category 5 hurricanes.

Mayor Belt provided important context, noting that while the Town's financial position is extraordinary, with \$28.2 million in general fund balance, it is funded through accumulated revenues over multiple years. This recurring reserve accumulation provides resilience against catastrophic events while potentially allowing for future tax reductions or infrastructure investments. The immediate benefit to residents is financial stability and creditworthiness, though questions remain about whether current taxpayers are overcontributing for future needs. He mentioned that the Town is assessing its total exposure to catastrophic events, such as a Category 5 hurricane, to ensure adequate reserves. Mayor Belt also noted that upcoming capital projects, including a \$12-15 million cultural and civic addition to the municipal center, will be financed but have a dedicated source of revenues from the State Accommodations Tax revenues, providing cultural amenities without impacting the General Fund.

Mr. Davis concluded his presentation by noting upcoming GASB standards effective for the fiscal year 2026, particularly Statements 103 and 104, which will affect the presentation rather than the measurement of financial information.

## **B. Discussion of the Internal Controls Assessment**

Kate Parker from Mauldin & Jenkins presented the findings of the internal controls assessment. She offered to either present highlights from her PowerPoint or engage in general discussion, with the Committee opting for the presentation.

Ms. Parker explained that the Town had requested an operational performance assessment of the finance department to evaluate the effectiveness of financial controls and identify process improvements. The assessment differed from the financial audit by being forward-looking, focusing on potential fraud, waste, or abuse opportunities rather than actual past instances.

The assessment methodology included interviews with staff, document reviews, process shadowing, and testing of controls across three fiscal years. Ms. Parker thanked Ms. Szubert and her team for their exceptional cooperation during a difficult period that included staffing gaps, flooding, and interrupted vacations.

The assessment examined seven risk areas based on inherent risk levels:

- Accounts Payable (Check Payments) - High risk
- Vendor Management - High risk
- Credit Cards - High risk
- Cash Receipts - High risk
- Purchasing/Procurement - Medium risk
- Treasury Management - Medium risk
- Investment Management Processes - Low risk

For accounts payable testing of 21 samples, the assessment found generally adequate implementation with minor non-adherence issues. One payment lacked the required approval signatures but was supported by compensating controls through multiple reviews. One payment showed a single employee as both preparer and approver, violating segregation of duties. One vendor payment (Mr. Bernard, who cleans garbage sites) had only handwritten documentation for a recurring \$1,000 monthly payment dating back approximately 15 years.

The Committee engaged in a detailed discussion about this informal vendor relationship. Town Administrator Tillerson explained that Mr. Bernard, now in his 70s, has provided this service predating the current staff. Mayor Belt and the Committee agreed that while the long-standing relationship is understood, proper documentation should be established in the future. Ms. Parker suggested this appeared to be the only such informal arrangement identified in testing.

Vendor management testing of 15 entities revealed that only 6 of 12 traditional vendors had W-9 forms on file, with only one dated within the last two years. Ms. Parker noted that this becomes more critical as the Town considers moving to ACH payments, given increased fraud risks associated with electronic banking information.

Credit card testing examined 90 individual charges across nine monthly statements. While all charges had appropriate approvals and reconciliations, 10 lacked required supporting documentation, and 4 had summary rather than detailed receipts.

The assessment identified two formal findings:

**Finding 1: Credit Card Control** - Town Administrator Tillerson's practice of lending her credit card to other employees for purchases creates a risk of unauthorized use. While no fraud was identified, the lack of tracking who possesses the card and for what purpose represents a significant control weakness.

Mr. Ashton asked about the percentage of total disbursements made via credit card versus check. Ms. Szubert estimated that credit cards account for approximately 5% of total payments, primarily for conference registrations, travel bookings, and subscriptions. The Town's primary payment method remains checks, with ACH payments currently limited to payroll and retirement contributions.

The Committee discussed context, noting that average charges are \$200-300, cards are primarily used for registrations and essential purchases, and the Mayor reviews all statements monthly. Despite the relatively low materiality, the Committee agreed to maintain this as a finding rather than downgrade it to an observation.

**Finding 2: Procurement Documentation** - Testing of 10 procurements brought to the Ways and Means Committee revealed insufficient documentation retention. Files lacked evaluation worksheets, complete vendor proposals, and evidence supporting competitive selection processes. While no fraud or favoritism was suspected, the inability to recreate the procurement process poses compliance risks.

Ms. Parker also highlighted recommendations in several areas:

**Ethics and Conflict of Interest:** Implement annual employee attestations and specific disclosures for Committee members evaluating procurements

**Cybersecurity and System Access:** Address concerns about passwords written in drawers with two-factor authentication tokens and one employee using a predecessor's login credentials

**User Access Controls:** Conduct regular reviews of system access and ensure that separated employees' access is promptly terminated

The Committee engaged in substantial discussion about the findings' materiality and implementation timeline. Of 27 total recommendations, nine were classified as high-priority for implementation within 90 days. Mayor Belt expressed concern about the Town's capacity to implement all high-priority items within the suggested timeframe while acknowledging the importance of addressing all recommendations.

Chairman Farrell suggested maintaining Mauldin & Jenkins' unvarnished recommendations while recognizing the Town has discretion in implementation timing based on risk and materiality. The Committee agreed that high-risk, high-materiality items should receive immediate attention, while lower-materiality items could be addressed over longer timeframes.

The Committee requested additional context in the final report regarding:

- Risk assessment methodology and criteria
- Explanation of priority rankings
- Comparison to other municipalities to provide perspective
- Ms. Parker noted that the Town's 27 recommendations compare very favorably to other clients who have received reports with three-digit recommendation counts, with some governments receiving over 1,000 recommendations.

The Committee agreed to the following process:

- Members will provide comments to Ms. Szubert by October 24th
- Mauldin & Jenkins will provide an updated draft within two weeks (by October 24th)
- The Committee will reconvene on November 10th to review the updated draft and management's proposed responses
- The final report will be dated year-end, with presentation at the first Town Council meeting of 2026.
- An executive summary will be commissioned (estimated cost \$2,000-5,000) to provide appropriate context for public distribution.

#### **C. Review of the Budget Report ending 9-30-2025**

Ms. Szubert presented the first-quarter budget report, noting that it is the same budget-to-actual report provided monthly to the Ways and Means Committee. She reported that revenues and expenditures for the first three months are tracking as expected compared to the budget and the prior year.

Ms. Szubert stated that the only significant variance relates to flooding expenses. The Town has incurred \$143,000 in flood-related expenses to date, though this amount doesn't include an estimated \$80,000 initial drying services invoice that hasn't been received. An insurance claim has been filed with a \$3,000 deductible, and the Town expects to recoup most expenses through insurance reimbursement, though Ms. Szubert noted the reimbursement process takes time.

Mr. Ashton questioned why the internal controls assessment didn't recognize the monthly budget-to-actual review as a key control, suggesting it should be included in a comprehensive control matrix. Ms. Szubert confirmed that this report is provided monthly to the Ways & Means Committee for oversight.

#### **VI. Chairman's Comments:**

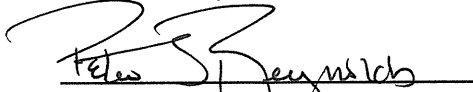
Chairman Farrell apologized again for participating remotely, having arrived home at 2:30 AM after extensive flight delays through Newark Airport. He thanked the Committee members and staff for their participation and thoroughness during the lengthy meeting.

The Committee agreed to reconvene on November 10<sup>th</sup> at 1:00 PM to review revised reports and determine public presentation format. Members will provide comments on financial statements by October 17<sup>th</sup> and internal control observations by October 24<sup>th</sup>.

**VII. Adjournment:**

*Chairman Farrell adjourned the meeting at 12:19 pm.*

**Submitted by,**

  
Petra S. Reynolds, Town Clerk

11-18-2025  
Date