

Finance Department Operational and Performance Assessment: Executive Summary

Prepared for: Town of Kiawah Island
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I. Overview and Background

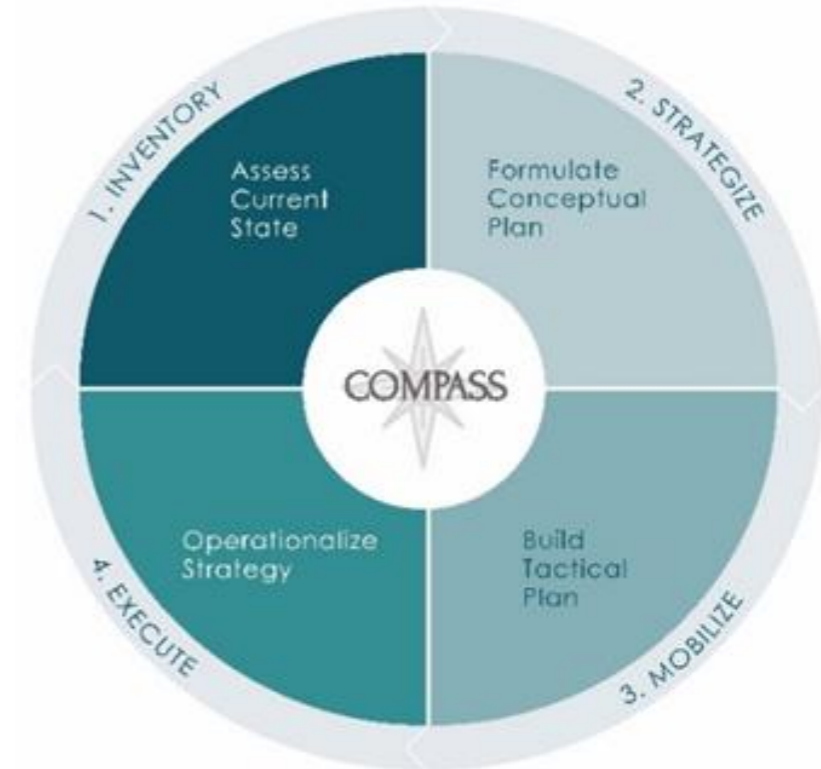
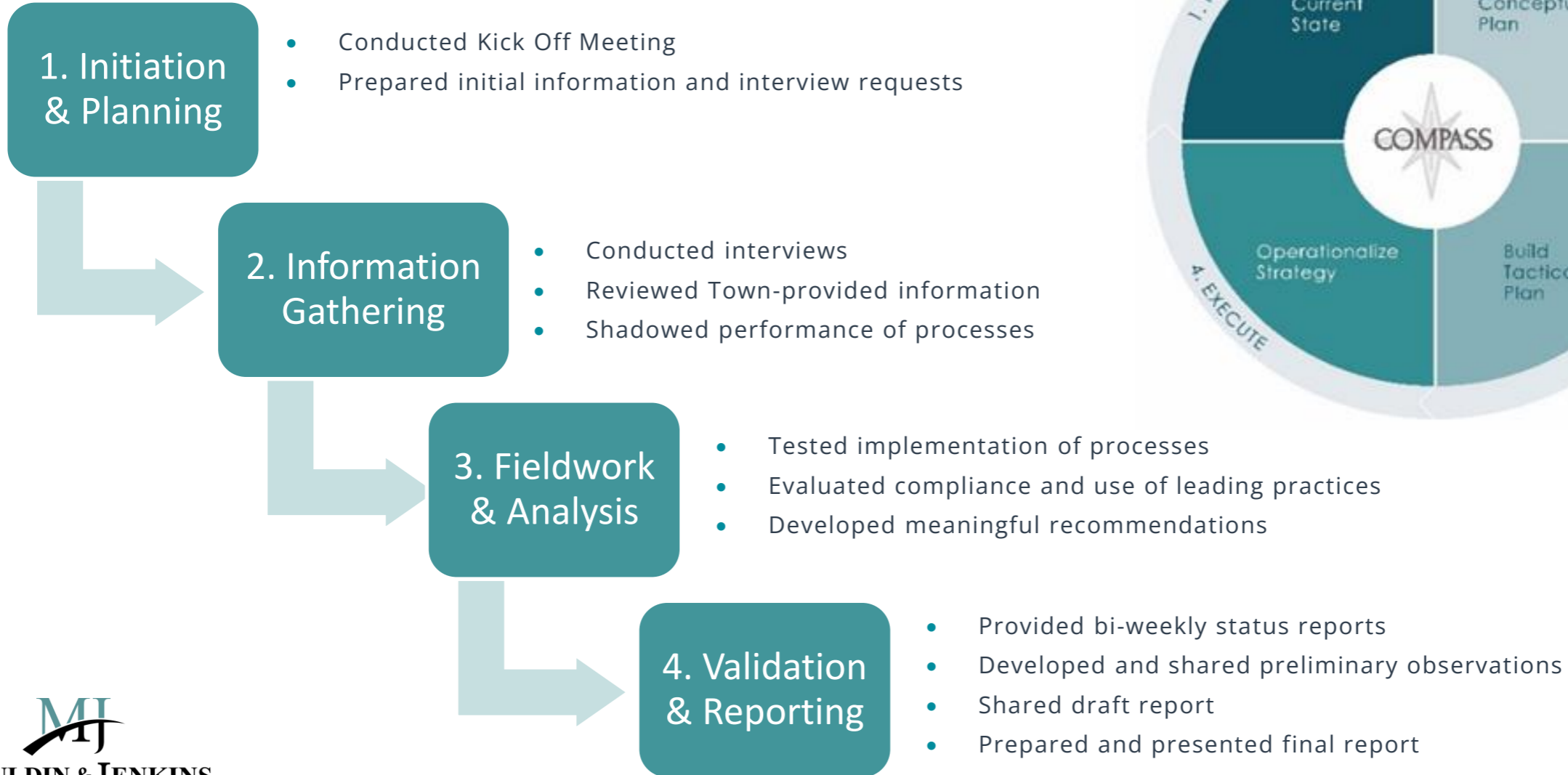
The Town of Kiawah Island engaged Mauldin & Jenkins to conduct an Operational and Performance assessment of the Town's Finance Department in order to evaluate the effectiveness of the Town's financial controls and identify process improvements that may improve administrative efficiency.

Overall, M&J's testing of the financial internal controls policies and procedures found that the Town's internal controls:

- Are adequately designed to achieve their intended purposes;
- Have actually and consistently been implemented; and
- Generally function as designed.

M&J identified no significant control gaps in the Town's internal control procedures.

II. Scope and Approach



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III. Testing

Approach:

M&J developed an inherent risk assessment to identify internal controls testing samples. M&J's assessment evaluated the *inherent risk* (i.e., the risk faced without considering any controls that the Town may have implemented) of fraud, waste, and abuse of the Finance Department's key processes , and tested elements of areas that resulted in a "medium" or "high" assignment.

- Accounts Payable
- Credit Cards
- Accounts Receivable
- Purchasing and Procurement
- Payroll and Personnel
- Treasury Management

Detailed results are contained in the report

The risk ratings provided by M&J are not intended to replace the risk assessments of Town management and the Audit Committee. The Town should not substitute these ratings for its own judgement.

IV. Overall Results

M&J found that the Town is in an overall mature position, with a number of effective controls, and is implementing leading practices designed to mitigate risk and position the Town for financial success.

Overall, M&J's testing of the internal control policies and procedures found that the Town's internal controls:

- Are adequately designed to achieve their intended purposes;
- Have actually and consistently been implemented; and
- Generally function as designed.

M&J's recommendations represent options for how findings and observations can be addressed, but do not represent all viable options. The Town may make strategic decisions that may warrant recommendations not being implemented exactly as stated in the report such as determining solutions that address the situation in a different manner while still achieving a positive outcome.

IV. Overall Results

M&J identified two findings during fieldwork. Findings represent areas of risk and/or breakdown of designed internal controls. However, the findings noted for the Town of Kiawah Island do not represent a significant deficiency in the Town's internal controls or have a material impact on the current financial position of the Town. M&J provided recommended steps to address these findings. The Town has the ultimate responsibility to determine which, if any of the recommendations to implement, and the timing of such implementation.

- The Town Administrator's decision to allow staff to take possession of the credit card without appropriate asset management steps poses a risk to the Town. The Town's current policies and processes also fail to address any potential liability or responsibility for potential misuse of the card
 - The Town should determine if it wants to continue this practice. If it does, then the Town should consider additional controls requiring physical logs documenting possession of the card, prior authorization of proposed purchases, and clear process or policy around risk and/or liability for misuse, including disciplinary action
- The lack of supporting documentation for procurement activity poses a risk that the Town may not be able to adequately evidence adherence to local and state purchasing requirements
 - The Town should revise and refine its policies and procedures related to the creation, collection, and retention of documentation to support procurement activity

IV. Overall Results

M&J identified 17 observations and provided recommended steps that could be taken to improve Town financial management. The Town has the ultimate responsibility to determine which, if any of the recommendations to implement, and the timing of such implementation. General themes of the recommendations are noted below.

Theme	Number of Recommendations
Documentation/Standardization	7
Controls/Security	7
Process Optimization	3

V. Conclusion

M&J commends the Town of Kiawah Island's leadership for commencing this Operational and Performance Assessment. Taking proactive steps to assess and mitigate risk will continue to assist the Town in identifying opportunities for enhancement while also understanding the effective controls currently in place.

The Finance Department is a mature department, currently operating efficiently in certain ways and has a number of effective controls in place and also has opportunities to improve. The Town now better understands the Finance Department's current state and has a roadmap for continual improvement into the future.

Questions and Discussion

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