

AUDIT COMMITTEE MEETING
Kiawah Island Municipal Center
Council Conference Room
September 27, 2018; 10:00 AM

Minutes

I. **Call to Order:** *Mrs. Szubert called the meeting to order at 10:00 am.*

II. **Roll Call:**

Present: Andrew Capelli
Jim Williams
Roland Hoffman

Absent: Jack Koach, Chairman

Also Present: Stephanie Tillerson, Town Administrator
Dorota Szubert, Town Treasurer
Emily Sobczak, Greene, Finney, and Horton
Brian McCall, Greene, Finney, and Horton

III. **Approval of Minutes:**

A. Minutes of the May 14, 2018 Audit Committee Meeting

Mr. Capelli made the motion to approve the minutes of the May 14, 2018 Audit Committee meeting. The motion was seconded by Mr. Williams and unanimously passed as amended.

IV. **Old Business:**

None

V. **New Business:**

A. Discussion with Auditors Regarding the FY 2017-2018 Audit

Mrs. Emily Sobczak with Greene Finney, LLP presented a draft of the of the Town's Fiscal Year 2017-2018 audit report which included the Comprehensive Annual Financial Report and Management Letter. She reviewed the Town's audit with a draft of the PowerPoint presentation that would be presented to Town Council to highlight the results of the audit and the financial condition of the Town as of June 30, 2018, and to received feedback from Committee Members on any suggested changes.

Items discussed were:

- Responsibilities of the Town in providing the financial information and the Audit firm in assisting in the preparation of the report.
- Reviewed the ongoing process of internal controls that the Town used throughout the year and described her agency's role in evaluating these processes and suggesting improvements.
- Auditor opinion – the Town received an “*Unmodified Opinion*” or clean opinion of the year's financial information.
- Town's General Fund Balance; \$7.9 million, which is 159.6% of 2019 budgeted expenditures and other financing uses
 - Total Fund Balance of \$8 million – and an increase of \$1.2 million from the previous year

- The non-spendable fund balance is \$115,000.00 for prepaid items for services rendered in FY 2019
 - The unassigned fund balance of \$7.9 million is available for operations – represents close to 160% of the 2019 budgeted expenditures. As a coastal community, it is recommended by the GFOA (Government Finance Officers Association) that a higher fund balance is maintained for unexpected expenditures from a natural disaster or strategic planning.
- Revenues
 - \$5.9 million for 2018; 11% higher than budget
 - Business licenses were higher than budget by \$303,000.00
 - Building Permits were higher than budget by \$180,000.00
 - \$364,000.00 (6.5%) increase from 2017
 - The \$213,000.00 increase in business licenses due to increased growth in the island’s economy and increased monitoring and enforcement by Town staff
 - The \$91,000.00 increase in building permits due to several permits issued for a large project on the island
 - The \$57,000.00 increase in court fines primarily due to increases in code enforcement from
 - The \$77,000.00 decrease in federal revenues due to the FEMA reimbursements related to Hurricane Matthew in the prior year
 - The \$64,000.00 increase in interest income primarily due to the Town changing investments to an SC LGIP (Local Government Investment Pool) account which has a higher rate of return

Mr. Capelli asked why the revenues from business license were higher. Mrs. Sobczak indicated that the Town was more diligent in collecting licensing fees that were owed. Mrs. Szubert added that the review of the business licensing process done by the Mercer Group recommended moving the process to the finance department in which a great amount of auditing work was completed along with rental licensing compliance. Members discussed the need for an item to provide income verification for contractors when applying for a business license and the Town’s intention to do random audits in the future. Mrs. Szubert stated she felt that compliance was a much bigger issue than under-reporting on the island.

Mrs. Sobczak continued with a discussion of:

- Expenditures
 - \$5.1 million; \$120,000.00 (2.4%) greater than budget
 - \$160,000.00 (3%) decrease from 2017:
 - The \$515,000.00 decrease in storm cleanup costs related to Hurricane Matthew in the prior year
 - The \$84,000.00 decrease in rentals due to the sale and subsequent rental from KICA of the old municipal center in the prior year
 - The \$177,000.00 increase related to the scraping of the dunes after Hurricane Irma
- Totals for All Funds
 - Revenues-\$9.6 million
 - Expenditures-\$7.8 million
- Pension Accounting

- Relates to the Town’s proportionate shares of the net pension liabilities and deferred outflows/inflows of resources related to the Town’s participation in the South Carolina Retirement System and the SC Police Officers Retirement System (“Plans”).
- No impact to the Town’s governmental funds.
- Impacts the Town’s government-wide financial statements:
 - Total Net Pension Liability (“NPL”) of the Plans of \$3.7 million on the Town’s Statement of Net Position for 2018.
 - Increase in the NPL of \$703,000.00 from 2017, due to poor experience, change in assumptions, investment returns, etc. in these Plans.
 - House Bill 3726 which was approved in April 2017 will increase employer contribution rates significantly from July 1, 2017, through July 1, 2022, and has also lowered the assumed annual rate of return on investments from 7.50% to 7.25%.
- Other Postemployment Benefits (“OPEB”) Accounting
 - The Town implemented GASB #75 “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” related to the City’s retiree health insurance plan (“OPEB Plan”)
 - No impact to the Town’s governmental funds.
 - Impacts the Town’s government-wide financial statements:
 - The Town recorded a prior period adjustment of approximately \$218,000.00 to its government-wide beginning net position in FY 2018 related to its OPEB Plan.
 - The Town had a Net OPEB Liability (“NOL”) of \$281,000.00 on its government-wide Statement of Net Position for 2018. Increase in the NOL of \$63,000.00 from 2017.
 - Our opinion has an “Emphasis of Matter” paragraph discussing the implementation of GASB #75.

Mr. Capelli questioned if the Town covers any health care benefits after Medicare age. Mrs. Szubert responded that the Town did not.

- Capital Assets
 - Total capital assets were \$14.4 million – an increase of \$80,000.00 from 2017 due to the following:
 - \$695,000.00 in additions including \$427,000.00 related to the construction of the new municipal center, \$177,000.00 in infrastructure, \$74,000.00 in signs and fences, \$14,000.00 in computers and software and \$4,000.00 in equipment
 - \$614,000.00 in depreciation expense
 - Net dispositions of approximately \$1,000.00
- Long-term Obligations
 - \$2.7 million in outstanding general obligation bonds with approximately \$367,000.00 in principal and interest due in the fiscal year 2019
 - It will be important for the Town to define the provisions of an OPEB Plan to determine the financial impact.
- Compliance
 - No findings noted

- o No Single Audit was required for the fiscal year 2018
- Management Letter -
 - o Recommendations – No items to report

Mrs. Sobczak stated there were no significant recommendations from Greene Finney, which she credited to Ms. Szubert and her staff who worked very hard to make improvements, refine processes and remain diligent in maintaining effective internal controls for the Town.

Mrs. Sobczak reviewed each of the items on the auditor's GP30 work paper which had been discussed with the Mayor.

- 1) *The Town's contracted IT firm performed a security assessment in May 2018 and identified a few deficiencies, including ten potentially insecure listening ports and three inactive computers, including one in the Finance group that was last used to login on March 16, 2018.*
- 2) *Journal Entries: The Town Treasurer prepares a number of journal entries during the year, and there is currently no formal review of those journal entries. As a mitigating control, the Town Administrator reviews the bank reconciliations and investment statements monthly, and the Town Treasurer presents periodic financial information to the Council and subcommittees; however, the information presented is also prepared the Treasurer.*
- 3) *Cash Receipts/Daily Deposits: The Town receives various cash, checks, etc. at the municipal center. Checks received in the mail are entered the mail log and stamped "For Deposit Only" before being provided to the finance department for processing. The Finance Clerk processes the deposits and takes the deposit to the bank or remotely processes the deposit, and the monthly deposits are reconciled to each system (business license/building permits, etc.) by the Town Treasurer; however, there is no reconciliation of deposits received via mail back to the mail log. This can become a concern for checks that are unusual or infrequent in nature and thus would not be anticipated by the Town. The Town relies on various other external controls (bank controls, etc.) to mitigate the inherent risk of cash receipts at the municipal center; however, we wanted to note that there is an inherent risk of misappropriation related to unexpected cash receipts. In addition, there is an inherent in any Organization when cash is being handled/received.*
- 4) *Purchase Requisitions: The Town is currently using manual purchase requisitions, which creates a greater risk of error or management override of controls and also makes it difficult to monitor compliance with the budget since encumbrances are reflected when reviewing the available budget. The Town has considered the cost/benefit of using the purchasing module and has decided that it is not feasible at this time.*
- 5) *Credit Cards: We reviewed credit card statements from July 2017 through April 2018 and noted 11 instances where the Town made phone payments on credit cards - 8 of the payments were made to avoid the credit card exceeding the credit limit and three where the cardholder exceeded the credit card limit. The Town was only charged a late fee for 2 of the three instances. The Town's credit card limits are fairly low, and this appears to be a recurring issue.*
- 6) *OPEB Plan: The Town established a retiree healthcare plan the year ended June 30, 2018 and implemented GASB #75. The Town is currently operating on the pay as you go basis and has not made contributions to an irrevocable trust (self-established or agency multiple-employer).*
- 7) *There were two receivables that were adjusted during the local accommodations taxes and the additional beach franchise fee.*

Mr. Capelli and the Committee Members discussed if the Auditors questioned each of the members of Council if they have been aware of any information that would affect the financials and if not, he would suggest that it be added as part of the audit. Ms. Tillerson stated that the Mayor and Mr. Wilson, as Chairman of the Ways and Means Committee, received a financial outlook monthly and staff overtime reports quarterly, whereas Council receives quarterly budget reports. She also added that employee is required to file an Annual Employee Disclosure form with the Town Attorney who then reports any issues or concerns to the Mayor.

Mr. Capelli questioned the status of the privatization of the police force. Ms. Tillerson explained that negotiations were underway with the CCSO (Charleston County Sheriff's Office) and it was hoped that the end of the year would finalize a contract.

Mr. Capelli pointed to paragraph 3B on page 51 in the receivables. He indicated that the funds from the judgment were recorded as deferred and listed as unavailable. He questioned if that applied to both judgments. Members agreed that the revenue is deferred because the check from Ms. Rucker has not been received yet and Mr. Gunnells judgment is on a payment plan along with the employees whose are payroll deducted. Mr. Capelli indicated that even if the amount is not expected to be recovered it should be fully reserved, but on the books.

Mr. Hoffman question if the employee payment is increased if the employee receives raises or bonuses. Ms. Tillerson, along with Ms. Szubert, indicated that the repayment amount does not adjust, is a fixed amount, but that the employee can accelerate the payments. They noted that the repayment would be completed in March and April of next year.

Mr. Capelli, along with Committee Members, made observations, asked for clarifications, and called attention to several other suggested edits in the draft.


VI. Chairman's Comments:
None

VII. Citizen's Comments:
None


VIII. Adjournment:

Mr. Williams made a motion to adjourn the meeting at 10:55 am. The motion was seconded by Mr. Capelli and was unanimously passed.

Submitted by,


Petra S. Reynolds, Town Clerk

Approved by,


Dorota Szubert, Town Treasurer

12/17/18
Date