



**TOWN OF HOLDEN BEACH
AUDIT COMMITTEE MEETING
TUESDAY, JULY 16, 2019 – 4:00 P.M.**

The Audit Committee met on Tuesday, July 16, 2019 at 4:00 p.m. in the Town Hall Public Assembly. Present were Chair (Mayor Pro Tem) John Fletcher; Members Woody Tyner, Mark Fleischhauer and Tom Myers; Town Manager David W. Hewett; Town Clerk Heather Finnell; and Fiscal Operations Clerks Margaret Lancaster and Mandy Lockner. Also present were Commissioners Mike Sullivan, Pat Kwiatkowski, Joe Butler and Peter Freer. Mayor J. Alan Holden was present for a portion of the meeting. Member Tony Chavonne was unable to attend the meeting.

Chair Fletcher called the meeting to order. He explained Member Tony Chavonne is missing due to an unexpected business trip.

AGENDA APPROVAL

Motion by Member Tyner to approve the agenda; second by Member Myers; approved by unanimous vote.

Chair Fletcher explained this meeting is the Audit Committee meeting to get input from the auditor. Nobody else will be interacting with the auditor. The auditor will be at the Board of Commissioners' meeting tonight.

APPROVAL OF MINUTES FROM JULY 5, 2019 MEETING

Motion by Member Tyner to approve the minutes from the last meeting (July 5, 2019), second by Member Myers; approved by unanimous vote.

PRESENTATION OF 2018 AUDIT RESULTS BY RIVE'S AUDIT PARTNER JAY SHARPE, CPA

Jay Sharpe presented information on the audit. The audit has been submitted to the Local Government Commission (LGC) for their review and approval. They did have one requested change to the report. They are waiting on final approval from the Town on that and then it will be resubmitted for LGC final approval. The audit is in draft form. Once they get LGC and the Board of Commissioners' approval they can issue the audit. He provided background on the process. A single audit was not required in 2018. The scope and timing of the audit were off track this year. They offered an audit with an unmodified opinion, the best opinion you can receive on the financial statements. If there were any major issues with the Town's financials, the first place you would see it would be in the opinion. They did have material adjusting journal entries and there was one finding this year, a material weakness.

Mr. Sharpe said there is a major standards change that will be effective July 1st. It will affect the Town's June 30, 2020 audit. A new Yellow Book has been put in place. A key area of it has to do with auditor independence. The new standard concentrates on the financial reporting preparation process. The

auditors will need to take a more detailed look at the preparation process, specifically looking at if the Town could prepare the financial statements themselves. If the auditor feels a town cannot prepare the statements on their own, the auditor is not independent in relation to the audit. The Town may need to look at hiring someone independent to prepare the financial statements. There is a new standard for leases. It's not effective for governments for a few years. In the next five to seven years, there will be an overhaul of the financial reporting process.

The committee talked with Mr. Sharpe about the preparation of the Town's financial statements.

Mr. Sharpe said they were scheduled to come out in September to start the fieldwork. Florence hit so there was a delay. Once they started the fieldwork, they noted the Town's financials were not in full accrual. He explained the two ways you can prepare statements. The state requires all governments to report based on Government Accounting Standards. The Town's financials should be on the modified accrual throughout the year. He said they came in and noticed it was not being done that way. Mr. Sharpe explained there was a significant amount of additional work in order to make sure the accruals were materially correct. If there are entries over materiality it is automatically a material weakness. He said beginning fund balances did not agree with the prior year audit. Mr. Sharpe answered questions from committee members. The committee and Mr. Sharpe talked about monthly reporting, adjustments and preparation of statements.

Mr. Sharpe provided details on the timeline of the current audit. Member Myers read the letter from the LGC on May 20th regarding the Town's audit being late. Mr. Sharpe explained usually the LGC doesn't issue a letter regarding late audits unless you have been late multiple times. If the audit is on time this year, the Town will no longer be on the list. He provided his recommendations on a timeline to ensure the next audit will be completed on time. He reviewed the process for the current audit. Member Tyner reviewed the timeline and information he found from reviewing his public record request (request of emails between the Town and Rives). The Board discussed the timeline and what could have been done to avoid being on the LGC's list. Mr. Sharpe explained the delay from December to April. Member Fleischhauer asked how often staff from Rive's was present here. Mr. Sharpe answered that they were here in November and everything else was by phone or email.

The Board and Mr. Sharpe talked about the amended contract and additional fees.

Mr. Sharpe explained if something gets above a deficiency it is required to be a finding (a significant deficiency or material weakness). Mr. Myers asked if there was progress on the repeat finding from last year. Mr. Sharpe said they would not remove the finding unless it was completely corrected. He explained they don't give an opinion on internal controls. They were aware of the RSM internal control report. That is part of the reason they applied high risk. Using outside help was discussed.

Member Fleischhauer asked if there is a revised fee quote for the upcoming audit. Mr. Sharpe replied he doesn't have the number at the top of his head. If the Town thinks they will have the trial balance ready, with only minor changes needed, \$25,000 is probably the number he would go with. He said if a good trial balance isn't in place by mid-August the Town would be behind the ball on the timeline.

DISCUSSION AND POSSIBLE ACTION ON RECOMMENDATION TO BOARD OF COMMISSIONERS REGARDING APPROVAL OF 2018 AUDIT

Motion by Member Tyner to approve the audit; second by Member Myers; approved by unanimous vote.

DISCUSSION AND POSSIBLE ACTION ON RECOMMENDATION TO BOARD OF COMMISSIONERS REGARDING APPROVAL OF REVISED 2018 AUDIT CONTRACT

Chair Fletcher explained it is a \$10,000 increase in cost.

Motion by Member Myers to recommend approval; second by Chair Fletcher.

The Board discussed if they should move forward.

The motion passed by a 3 – 1 vote with Chair Fletcher and Members Myers and Tyner voting for the motion and Member Fleischhauer voting in the negative.

DISCUSSION AND POSSIBLE ACTION ON RECOMMENDATION TO BOARD OF COMMISSIONERS REGARDING RETENTION OF RIVES AS THE 2019 AUDIT FIRM

Motion by Member Myers to recommend retaining Rives as the 2019 audit firm; second by Member Tyner.

After discussion, the motion passed by a 4 – 0 vote.

DISCUSSION AND RECOMMENDATION TO BOARD OF COMMISSIONERS REGARDING PROCESS FOR AUDIT COMMITTEE'S INVOLVEMENT IN OVERSEEING THE ANNUAL AUDIT AND EVALUATING THE EXTERNAL AUDITOR

Member Myers would like the group to be involved in helping make sure the audit milestones are met. He read from the ordinance and said they are the avenue of communication between the auditor, management and the Board and they can report to the Board if we are on track. The committee talked about the best method for them to be involved. They discussed options for a motion.

Motion by Member Tyner that Members Tyner and Myers will create a checklist or milestone list of activities that have to be completed and their timeline to make sure the audit is completed by October 31st, which would include us monitoring those activities and reporting back to the Audit Committee; second by Member Myers; approved by unanimous vote.

DISCUSSION AND POSSIBLE ACTION ON RECOMMENDATION TO BOARD OF COMMISSIONERS REGARDING THE REQUIREMENT OF A MORE USEFUL MONTHLY INFORMATIVE FINANCIAL STATEMENT FORMAT AS PRESENTED AT THE JULY 5TH AUDIT COMMITTEE MEETING

The committee agreed to defer action on this item.

DISCUSSION OF THE RESPONSIBILITIES OF THE AUDIT COMMITTEE PER ORDINANCE 30.26 AND WHAT IS NEEDED TO MEET THESE EXPECTATIONS

Member Myers went over the items listed in the Audit Committee ordinance and if the committee is working on them. He doesn't think the committee is hitting all of the items. He thinks they need to agree how they will fulfill the clause about providing an avenue of communication among the Board, Town Management and the auditor. Member Tyner said it needs to be in a formal setting and should include the whole committee. The committee talked about it always being two people if the whole committee doesn't meet. Chair Fletcher said the committee has to be active and periodically check processes to see how it is working. Member Tyner suggested when the committee has the quarterly meetings they should have a couple of items from the ordinance on the agenda. Chair Fletcher talked about monitoring. Member Fleischhauer added they need to be careful to not create an extra burden to the process.

DISCUSSION AND POSSIBLE ACTION ON RECOMMENDATION TO BOARD OF COMMISSIONERS REGARDING THE OVERSIGHT OF THE RECOMMENDATIONS DETAILED IN THE RSM REPORT FOR CORRECTION OF EXISTING INTERNAL WEAKNESSES

Chair Fletcher said at the last meeting they were ready to get a periodic update and the finance director advised it wasn't appropriate for the committee to get involved. He stated that is in conflict with the ordinance. He would recommend to the Board that they are authorized to get the reports to see which ones have been corrected and how they have been corrected. The committee talked about being part of the process.

Chair Fletcher said he will take that to the Board tonight so that they will clarify the role.

DISCUSSION AND POSSIBLE ACTION ON RECOMMENDATION TO THE BOARD OF COMMISSIONERS REGARDING THE REQUIREMENT THAT THE FINANCE DIRECTOR PROVIDE ALL REQUESTED INFORMATION REGARDING INTERNAL FINANCIAL CONTROLS

Chair Fletcher said if the committee needs to look at something they need to be able to ask for information from the finance director and get it without having to wait for the next meeting to get permission. Member Tyner asked if the committee or the chair would ask for it. Chair Fletcher answered the committee. Member Fleischhauer inquired if it will come from the regular quarterly meeting. Chair Fletcher replied yes. He provided an example that the committee would need to talk to the manager to see if they can review certain procedures with staff.

ADJOURNMENT

Motion by Member Myers to adjourn at 5:49 p.m.; second by Member Tyner; approved by unanimous vote.