

**Audit Committee
May 9, 2025
Meeting Minutes**

Members Present: Frank Myers, Dave Mercanti and Sherene Gravatte,

Others Present: Janet Connery, Raelene Menominee, Rosemary Hardiman, Theresa Keil, Bruce Frye

Auditors Present: Roy Geiser and Jessica Shahady of UHY LLP

Mr. Myers called the meeting to order at 10:05am.

Approval of the Agenda

Mr. Mercanti made a motion to approve the agenda. Mrs. Gravatte seconded and the motion passed unanimously.

Approval of the Minutes from the January 24, 2025 meeting

Mr. Mercanti made a motion to approve the minutes from the previous meeting. Mrs. Gravatte seconded and the motion passed unanimously.

Report by accounting firm UHY LLP as to this year's audit

Mr. Geiser presented and said they are on track to meet their July deadline. He said they are still waiting for pension information from the State of Delaware.

Mrs. Connery reported that Ms. Shahady had been in Town Hall all week for the fieldwork. Ms. Shahady said everything had gone smoothly.

Mr. Geiser reported the effect of a new GASB standard would be very minor, if it has any impact on the Town. He said there is not a whole lot to report on at this point. They are looking to set up the July meeting.

Mr. Geiser reported there had been a UHY IT assessment done.

Mrs. Connery handed out a brief summary about the risk assessment that has been going on and is still in draft form. She said that the recommendation was made at the January Audit Committee meeting and the Town Manager gave the clearance to pursue. She said that since the audit firm TGM Group LLC joined the much larger audit firm of UHY LLP several years ago they have the expertise needed to do a risk assessment of the Town's IT department. Mrs. Connery reported that the key concerns from this risk assessment are that there is a lack of documentation of processes and a lack of a backup if something happens to the IT Director.

The risk assessment used standards designed by the National Institute of Standards and Technology (NIST), which was designed for much larger companies than our Town.

The Town has a limited number of employees and resources to be allocated to IT and cyber security. Mrs. Connery said the one of the highest priority findings was that the town should consider the need for a person to step in if the IT Director is not available, including the possibility of entering into a formal agreement with our IT consultant. Mrs. Connery mentioned the other highest priority findings in the draft report: no IT ticketing solution, which the Town just ended as of last year; no documented incident response plan; inventory is out of date, which our IT Director disagrees with; and vulnerability scanning is needed, although the IT Director believes the current daily scans are sufficient. If there is an incident, the Town has cyber insurance that includes help from the insurance company's IT experts.

Mrs. Connery reported that the Town Manager would determine what the priorities are along with the recommendations once the report is finalized. The Town Manager took the recommendation seriously and conducted the IT Cybersecurity Program Assessment. We are in draft format and will continue with the final report.

Mr. Myers said he appreciated the Town taking the recommendation seriously. He said this type of report and activity is the same issue that everyone is facing and has been facing for quite some time. He said it is time to look at this and see how they can reduce the workload. Mr. Myers asked if there were any state requirements in regard to cyber security. Mrs. Connery said that she was not aware, but the IT Director served on a state committee for cyber security. Ms. Shahady said that she had some training for single audits and the uniform guidance for federal grant funding, they do ask for a cyber security assessment for governments using the federal funds. Mr. Myers said as they look at the federal funding issue, he would find it difficult to believe they would not get stricter with funding if the controls are not in place. Ms. Shahady said they are bumping the threshold up to \$1 million for 2026. Mrs. Connery said the clarifier loan will trigger a single audit. She said the only significant federal grant the Town has is \$500,000 for the Lake Bethany bulkhead.

Questions / Comments by Audit Committee

Mrs. Connery reported that every quarter she was going to take the journal vouchers and discuss them with John Morton, Internal Auditor. She said she has been increasing his knowledge on finances for the last couple years. Mrs. Connery said John has stepped into a new role at the front desk which exposes him to everything. She said this is good for the internal audit side of things. The plan moving forward was for him, every quarter, to review the last three months' journal vouchers. Mrs. Connery said most months she only has 2 JV documents. These routine JVs record transactions from the tax billing subsystem, monthly revenues like parking, bank interest and fees, CD purchases and maturing, and many other things. The majority of transactions are repeated each month, but with different amounts.

UHY made a recommendation, saying that one person having the duties of all the journal entries- creating, posting and reviewing is a large risk. The recommendation is to have another knowledgeable person review the JVs. The 3-month timeline might not be timely enough with John reviewing. They suggested having Assistant Finance Director Melaney Berns post the vouchers, and Mrs. Connery becomes the reviewer to have another layer of control. Mrs. Connery said she would rather have Mrs. Berns review and initial them while Mrs. Connery handles the rest. Mr. Geiser said this all goes back to risk base auditing. It has only been since Mrs. Berns became Assistant Finance Director that Mrs. Connery has had someone knowledgeable enough to review this type of work.

Mr. Myers said he is interested in learning the process and not necessarily looking into fraud. He said the real question is how you go through everything in the most efficient manner possible.

Mrs. Connery said looking forward this recommendation could be a problem. Currently Mrs. Berns understand the process, but once Mrs. Connery retires then who will be knowledgeable enough to review the documents moving forward.

Mr. Myers said how do you make one person have confidence- will have to be put on the system to monitor on a timely basis. The system that is being looked at could be a part of the control system that the auditors look at.

Mr. Mercanti said it looks great in theory- but how do you implement it in a town so small. He thought it would be a major undertaking.

Mr. Myers thought the documentation being created for Mr. Morton to learn how to do the JVs could be then put into a system. Mr. Geiser said the biggest challenge for their audit was getting the information together and then running it through their system. He said this is coming down the pipeline, but it is still in the pilot stages. Mrs. Connery said that Mrs. Berns is better at query writing, and she may be able to write a query. Ms. Shahady said that they have to look at journal entries anyway, but it takes them a while. Mr. Geiser reminded everyone they are not a part of internal controls.

Mr. Geiser said having an audit committee and having an internal auditor is quite unique to Town's of this size and governments in general.

Mr. Myers asked in the scope of John's internal audit plan- how that internal audit plan comes about and what risks are going to be a part of the plan. Mrs. Connery said she did some research to see what other risks towns were focusing on when the plan was developed and since then had added some tasks as more risks are identified.

Next meeting date: Monday, July 21st at 10am

Public Participation

NONE.

Adjourn

Mr. Mercanti made a motion to adjourn at 10:55am. Mrs. Gravatte seconded and the motion passed unanimously.