

**Audit Committee
Meeting Minutes
May 13, 2010**

The Bethany Beach Audit Committee held a meeting on Thursday, May 13, 2010, at 10:00 a.m. in the Town Meeting Room.

Members present: Don Doyle, Chairman, who presided; Thomas Defibaugh; and Monte Wisbrock.

Also present: Herb Geary, Roy Geiser, and Betsy Eicher of the TCM Group LLC; Finance Director, Janet Connery; Internal Auditor, Phil Rossi; Town Council Members, Jerry Dorfman and Jack Gordon; Administrative Secretary, Lindsey Shallcross; and other interested members of the public.

Call to Order

Mr. Doyle called the meeting to order at 10:03 a.m.

Approval of the Agenda

Mr. Wisbrock made a motion to approve the agenda. Mr. Defibaugh seconded the motion and it was unanimously approved.

Approval of the Minutes from the December 08, 2009 Meeting

After Mr. Doyle made two revisions to the minutes, Mr. Defibaugh made a motion to approve the minutes dated December 08, 2009. Seconded by Mr. Wisbrock, the motion was unanimously approved.

Introduction

Mr. Doyle introduced the new Audit Committee members, Mr. Wisbrock and Mr. Defibaugh to the auditing firm, the TCM Group LLC. He explained that the Committee tries to stay separate from management by selecting members that are not on the Town Council.

Mr. Geary introduced the auditing firm staff members to the Audit Committee, noting that they each have received extensive training. Mr. Geiser has worked on the Town's audit since they began using the TCM Group LLC six years ago. Ms. Eicher has also worked on the Town's account for several years.

Mr. Geary explained that their firm has had extensive experience working with various types of government entities. Other audit clients of the firm include four counties, four school districts, and a large number of towns. Their firm is a part of the Government Audit Quality Center and that they had a positive peer review this past November. On Monday, they will be providing eight hours of continued education of government auditing for all who attend, and he acknowledged that Ms. Connery will be attending.

Report by accounting firm TCM Group LLC as to this year's audit

Mr. Geary reported that most of the auditing is complete for the Town of Bethany Beach, and that no reportable conditions have been detected. He acknowledged that the Town of Bethany Beach is doing a great job, and it is a benefit to have an internal auditor employed. He noted that many of his other clients are experiencing financial difficulties due to the conditions of the current economy, while the Town of Bethany Beach has been able to maintain its financial stability.

Mr. Geary explained that the Town should continue to practice the policy of having an internal auditor in addition to the external audit firm, since frauds committed within a company or government are very common. He stated that it is difficult for external auditors to find a committed fraud in a financial setting, especially if more than one person is involved.

Mr. Geary said that the members of the Audit Committee can contact him with questions or concerns at any time.

Mr. Doyle expressed his appreciation to the TGM Group LLC for their work and time.

Questions/comments by the Audit Committee

Mr. Defibaugh asked Mr. Geary if the TGM Group LLC works in other states and if they are licensed to do this in Delaware.

Mr. Geary responded that TGM Group LLC is licensed to audit in Delaware, and there is a national set of regulations that they must abide by. He continued that most of their clients are located within a couple hundred miles of Salisbury, Maryland.

Mr. Geary encouraged the new Audit Committee members, Mr. Defibaugh and Mr. Wisbrock, to review the prior audit reports to be up to date on the Town's current situation.

Mr. Doyle asked the auditors if they were comfortable with the Internal Audit report that was prepared by Mr. Rossi.

Mr. Geiser suggested to Mr. Rossi that he review a list of vendors and addresses to make sure none of them are false.

Ms. Connery explained that there are many inactive vendors, but Mr. Rossi thoroughly reviews the list of vendors when he solicits donations for the Fourth of July Parade.

Mr. Doyle asked if there were any questions or comments from the public.

Property owner, Pat Neary, asked if the Sarbanes-Oxley Act from July 2002, which was enacted as a reaction to various major corporate and accounting scandals, has had an effect on the Town.

Mr. Geary stated that the Sarbanes-Oxley Act does not apply to governments, although their firm is very familiar with the act from work on public firms. Governments are not required to report under this act, although much of the audit testing derives from Sarbanes-Oxley.

Mr. Neary noted that his home in Marco Island, Florida recently had an issue with illicit expenses. He questioned what the Town does to confirm that all spending is authorized.

Mr. Geary explained that that his staff evaluates the Town's procedures and a portion of invoices. He assured that all spending expenses are compared to the budget of the current year and the prior year to verify that there aren't any significant differences, and to investigate the situation if there are.

Mr. Rossi acknowledged that he thoroughly examines invoice authorization when he opens the bank statements and reviews the checks that are paid.

Ms. Connery pointed out that the Mayor receives a list of all the checks that are distributed each week.

Mr. Gordon asked about the post-employment benefit and if the Town has received the valuation, since it was discussed in detail and considered last year.

Mr. Geary responded that the valuation is complete and has been evaluated, and the numbers are approximately the same as the estimate made last year.

Ms. Connery explained that the single-year liability is \$35,000, which is higher than she expected but it must also be taken into consideration that health care has fluctuated.

Mr. Geary noted that the Town of Bethany Beach, along with some other cities and towns, are reserving fund balances in a separate cash account, which is a good establishment. He also said the Town is doing a great job with its liability.

Mr. Defibaugh asked if the Town expends money towards beach replenishment, since many people are under the impression that it does.

Ms. Connery clarified that beach replenishment is federally funded, with the exception of Town employees doing small tasks. There is \$40,000 reserved this year to make needed changes to beach access, with DNREC's approval.

Mr. Wisbrock asked the auditing firm what the future financial status of the Town looks like.

Mr. Geary explained that the Bethany Beach reserves are adequate, and May and June are the best times to have the auditing firm evaluate the Town. He doesn't predict any major changes for the Town.

Any Other Matters

Mr. Geary explained that, as regards to any future accounting changes, the term “Reserve Funds” will be re-defined in 2012. This will be a minor change for the Town

Mr. Doyle acknowledged that Ms. Connery and the Budget and Finance Committee did a fine job in strengthening the process employed in the setting aside of funds to be placed in the Town’s various reserves and this process was well explained in the May 2010 Town Newsletter.

Mr. Geary stated that the draft statements should be expected to be complete by next month.

Ms. Connery noted that after the drafts are complete, she will review them and write the Management Discussion and Analysis (MD&A) section. After that, the auditing firm will review the MD&A to assemble draft statements for the Audit Committee to review. The Committee typically meets again to discuss the statements before finalizing it.

Mr. Doyle thanked the auditing firm for all of their work for the Town.

Adjourn

Mr. Wisbrock made a motion to adjourn the meeting. Mr. Defibaugh seconded the motion and it was unanimously approved.

The meeting was adjourned at 11:05 a.m.