

Improvement needed after Holden Beach town audit

By Sharon Chance

Wednesday, July 24, 2019 at 10:26 am

The Holden Beach Board of Commissioners meeting Tuesday, July 16, appeared to ruffle some feathers as board members questioned the 2018 audit presentation and the additional expenses incurred.

Jay E. Sharpe of Rives & Associates, LLP, an accounting firm with offices in Raleigh, Charlotte and Lexington, presented the results of the 2018 audit. Sharpe's presentation indicated the town is financially in good shape as of the June 30th end of the fiscal year.

Based on Sharpe's findings, the town's revenues outpace its expenses, its fund balance is "moving in the right direction," the town's property tax base is increasing even while the tax rate did not increase. The largest expenditures are public safety, followed by general government, transportation and environmental protection.

During the meeting, however, Commissioner Pat Kwiatkowski raised several questions. First, she asked, "why has the board not seen the actual final version" of the audit report. Secondly, she questioned the timeline of the audit process.

"Why did it take so long?"

Hurricane Florence delayed the audit fieldwork, creating a "material weakness." Sharpe said.

A material weakness refers to deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a misstatement of a town's or other entity's annual or interim financial statements will not be prevented or detected on a timely basis.

Kwiatkowski also asked Sharpe "how do you assess the qualifications of the (town) staff (to) prepare its financial reports?"

In the summary of auditor's results, Sharpe's report states under the category of internal control over financial reporting, the audit identified material weaknesses, significant deficiency not considered to be material weaknesses, and noncompliance material to financial statements noted. His report further stated a significant deficiency regarding the town having an employee who is familiar with governmental accounting principles that "can review its financial statements each year and determine if they have been prepared accurately.

"The Town's staff has the ability to perform daily functions to operate the finance department. However their expertise is limited in the area of financial statement preparation in accordance with generally accepted accounting principles, specifically with full accrual basis statements as required by GASB 34."

GASB is a private, nonprofit organization formed in 1984 to develop and improve accounting and financial standards for state and local governments.

In June 1999, GASB approved GASB-34, the latest in a series of standards that the board has issued. This proclamation requires that state and local governments begin to report on the value of their infrastructure assets—including roads, bridges, dams, and water and sewer facilities—and to develop procedures and methods for asset management systems.

Under the current reporting method, revenue and expenditures are recorded in the fiscal year in which they are received or paid (cash-basis accounting). Under the GASB-34 method, governments must account for revenues and expenditures for the period in which they are earned or incurred (accrual-basis accounting). In addition, all current and long-term assets and liabilities, such as infrastructure and general obligation debts, need to be reported within the balance sheet.

The report identifies the cause "as the town budget limits the number of personnel it can hire for various functions and training of these personnel."

In closing the report stated the administration has increased its budget for training and has hired part-time services "to perform financial reporting, train and assist current staff in preparation of the town's financial reports."

In an e-mail dated July 19, Kwiatkowski states:

"I believe the Town's financial department is capable of handling their responsibilities. Mr. Sharpe indicated the rules and regulations impacting government finance reporting continually increase, and the town staff is receiving additional training and outside assistance to be prepared to meet new standards."

During Tuesday's meeting, Mayor Pro Tem John Fletcher stated the town has contracted "outside help to help staff" improve its accounting procedures.

Commissioner Mike Sullivan reminded the board "time is of the essence." He also stated the town was "on a list."

According to Kwiatkowski, the list Sullivan referred to "was due to a letter the Town received from the LGC (Local Government Commission) because the audit report has not been submitted on time. The LGC will be watching next year's audit report is provided according to the schedule."

The Local Government Commission is a division of the state treasurer's office. The LGC assist local governments and "is responsible for monitoring and ensuring towns' fiscal health. The LGC can intervene if it appears a town is not managing its financial obligations appropriately," she explained.

Commissioner Joe Butler urged the board to take advantage of the resources available to the town.

"We've got to change," Butler said. "If we not adhering ... we have the expertise and procedures to do it. Let's do it. Let's correct our deficiencies."

Butler then suggested the board (and various committees) could do a better job communicating with one another.

In an effort to clarify the discussion, Mayor Alan Holden asked, "Are we going to jail? Has anyone gotten away with a bag of money?"

Fletcher then made a motion to accept the audit report. Commissioner Peter Freer seconded the motion. The motion passed on a four to one vote. Kwiatkowski cast the dissenting vote.

"I want to see the full and final report," she said. "We should have this in front of us."

In addition to its discussion regarding the audit results, the board questioned the amended cost of the audit. The delay created by Hurricane Florence will cost Holden Beach an additional \$10,000. The original contract with Rives & Associates estimated the cost for the audit at approximately \$15,000.

Despite Kwiatkowski's protest that the amendment contract was "not done appropriately and did not follow the rules," the board approved the amended contract with the increased cost. Kwiatkowski again cast the dissenting vote.

The board next agreed to retain the Rives accounting firm for its 2019 audit without a proposed fee schedule or formal contract.

Kwiatkowski requested the board seek three firms to submit bids.

"You're writing a blank check," Holden Beach's attorney Noel Fox advised the board.

In other business, the board:

- Accepted a report from the Inlet and Beach Protection Board (IBPB) stating the board has received easements from East End property owners to allow sand placement from dredging the Lockwood Folly Inlet and crossing. The project is slated for this winter;
- Appointed Kwiatkowski, at her request, to draft a proposal outlining specific procedures for various committees in reporting to the board. "In cases where projects and/or capital expenditures are impacted. It is important that the record contains sufficient information in case the same or similar situation arises in future and current town officials want to understand the logic behind the previous decision."
- Recommended town staff revisit fire ordinances to ensure island residents and/or visitors are not "grilling hot dogs on the beach." Town ordinance 91.15 prohibits any person or business to set or cause to be set any fire within the town, and ordinance 91.16 prohibits recreational fires, except those confined within containers manufactured specifically for such purpose;
- Agreed to increase enforcement of parking ordinances. The town's parking codes currently prohibit parking in any public right-of-way "so as to block any crosswalk, sidewalk or access way designated and set apart for use by pedestrians." Parking is also prohibited overnight (2 to 5 a.m.). Parking must be as far off the public street right-of-way as possible. No parking is allowed on any portion of the roadway or sidewalk. Holden reported he is receiving many telephone complaints and would gladly pass on commissioners' contact information to callers complaining about parking. "It's not working folks," he said.
- Police Chief Jeremy Dixon reported a total of 308 incidents over the past month, with 57 business checks, 43 public assistance calls and 40 ordinance complaints. Holden Beach police also responded to four incidents, including one aggravated assault, misdemeanor larceny, assault on a child under 12, second-degree trespass and minor driving violations.