



TOWN OF ELLENDALE

PERFORMANCE AUDIT
CALENDAR YEARS 2019-2022



TOWN OF ELLENDALE PERFORMANCE AUDIT

REPORT SUMMARY FOR CALENDAR YEARS 2019-2022

BACKGROUND

The Town Council of Ellendale (the “Town”) engaged the State of Delaware Office of Auditor of Accounts for a performance audit (the “Audit”).

The purpose of our Audit was to evaluate the efficiency and effectiveness of Town operations during calendar years 2019 to 2022. The audit objectives were to assess whether the system of internal controls was adequate and appropriate for the achievement of Town Council objectives regarding compliance, fiscal management, and governance. Audit testing was designed to evaluate key financial processes, internal controls, and compliance with applicable laws, regulations, and the Town charter.

The State Auditor is authorized under 29 Del. C., §2906 to conduct postaudits.

KEY INFORMATION AND FINDINGS

The 2023 Town Council inherited a town with challenges and opportunities. Opportunities for Ellendale stem from its experience in substantial growth from real estate developments. Challenges include establishing the foundation of an internal control framework supported by structured governance with sufficient resources, budget development, and documented policy and procedures. The audit notes concerns surrounding appropriate internal controls to effectively guide, manage, and oversee the Town’s continued development. As the Town grows and expands, there is an anticipated surge in demand for services and a heightened need for accountability. Tackling the challenges faced by the Town will likely enhance public perception, service quality, and overall transparency.

The auditor’s report underscores the need for corrective action in the Town's operations and internal controls. Auditors found deficiencies in records management, internal control weaknesses, conflicts of interest, and deviations from established governance protocols that have the potential to allow fraudulent activity to go undetected.



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KEY INFORMATION AND FINDINGS CONT. ---

The examination of the cash receipts identified missing and unrecorded cash transactions, an indicator of accounting errors or the possible existence of fraudulent activities. The deficiency surrounding cash receipts raises concerns about the accuracy and completeness of financial records, and the failure to document all cash inflows poses risks to financial transparency and the ability to accurately assess the Town's financial health.

The Audit also identified undocumented expenditures indicating potential issues with the approval and monitoring of disbursements. Expenditures lacking adequate supporting documentation further highlight vulnerabilities in the internal control framework. The Auditor found instances where procurement requirements outlined in the Town charter were not followed, particularly concerning purchases for items exceeding \$10,000.

Tax rate changes voted upon at Town council meetings did not result in a required charter update. This oversight resulted in confusion about the tax amounts charged to parcels and may have led to inaccuracies in tax assessments. Audit recalculations found variances in taxes assessed. The discrepancies may have implications for budgeting, financial reporting, and the overall financial health of the municipality. The mismatch of parcel IDs between Town records and county records was identified as a potential contributor to variances in tax assessments.

The Audit found deficiencies in the Town's records management program. Missing and unfiled documents highlight the need for transparent and efficient processes for managing both physical and electronic records. Incomplete or inaccurate information led to difficulties locating information during the audit.

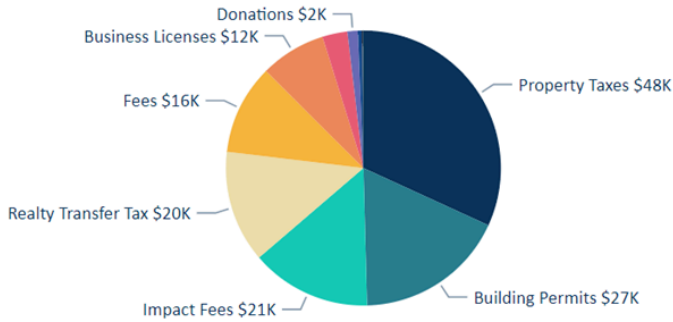
For any questions regarding the attached report, please contact:
OAOA_Comms@delaware.gov.



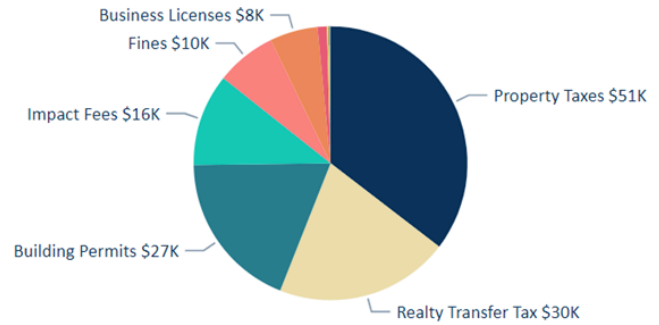
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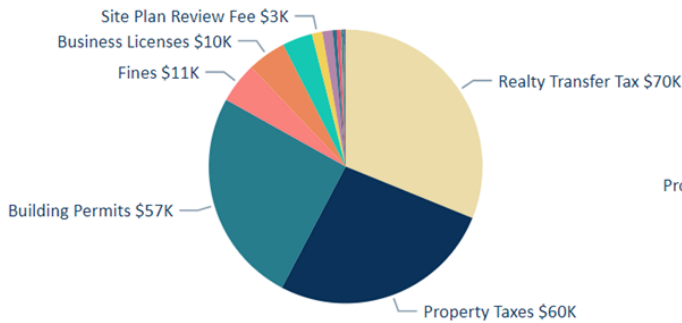
2019 Actual Revenues (No Grants)



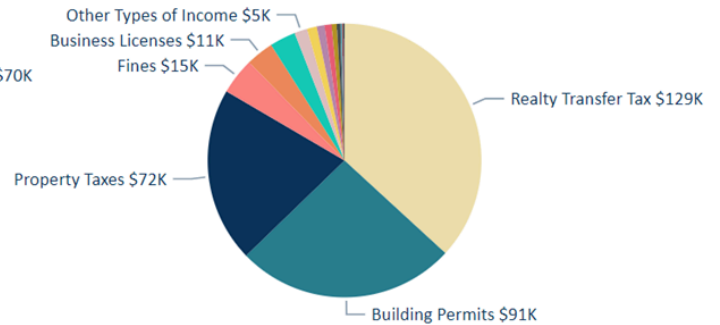
2020 Actual Revenues (No Grants)



2021 Actual Revenues (No Grants)



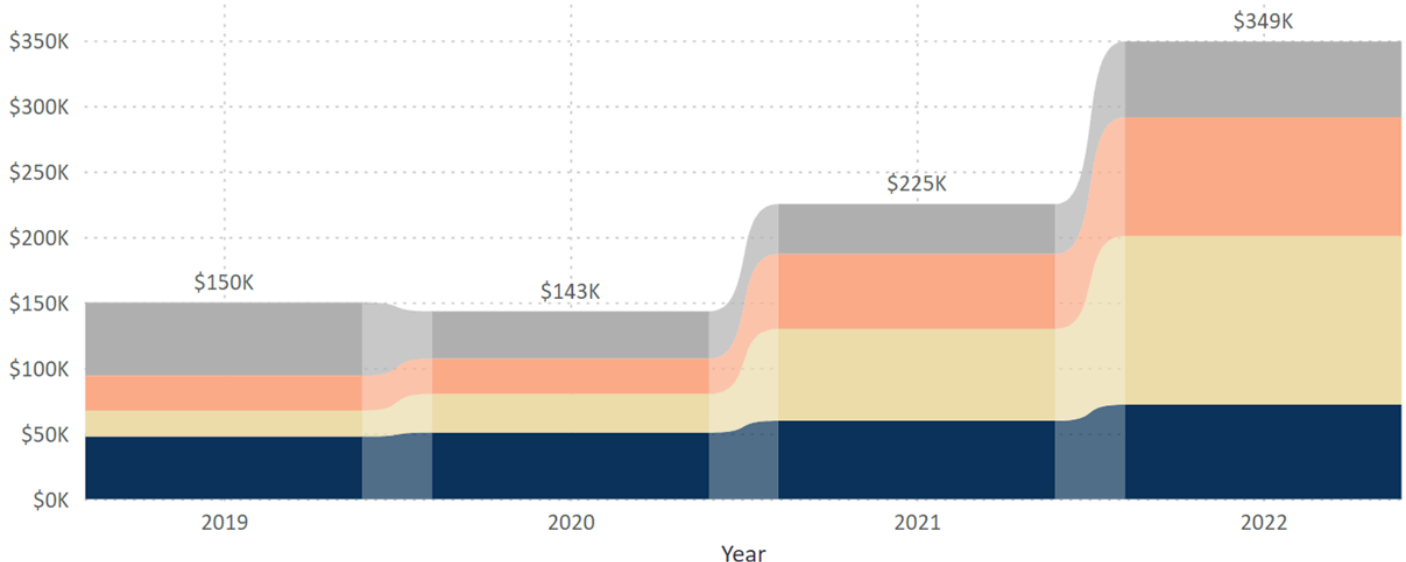
2022 Actual Revenues (No Grants)



Total Revenue by Year

(Not Including Grant Moneys)

● Property Taxes ● Realty Transfer Tax ● Building Permits ● Other Income

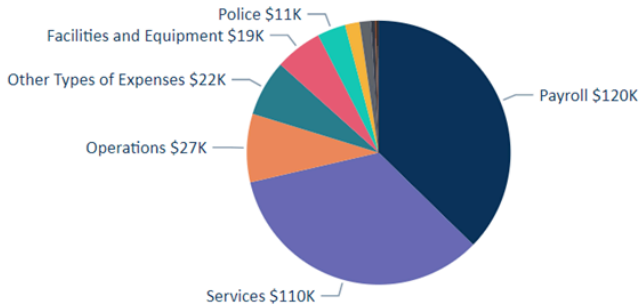




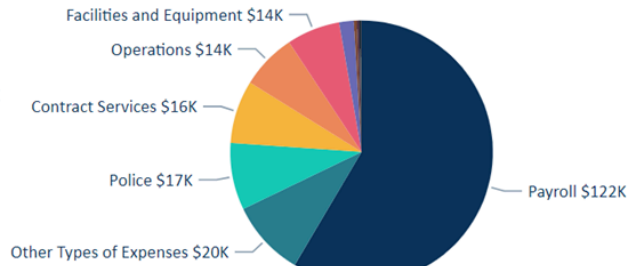
TOWN OF ELLENDALE PERFORMANCE AUDIT

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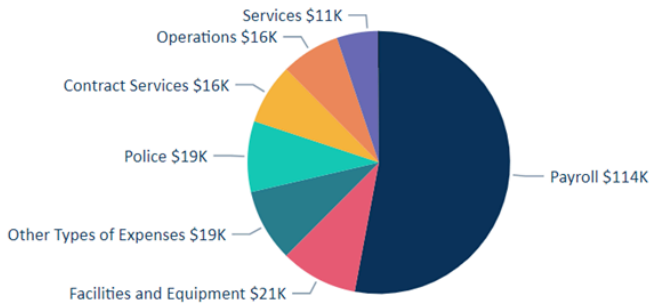
2019 Actual Expenses



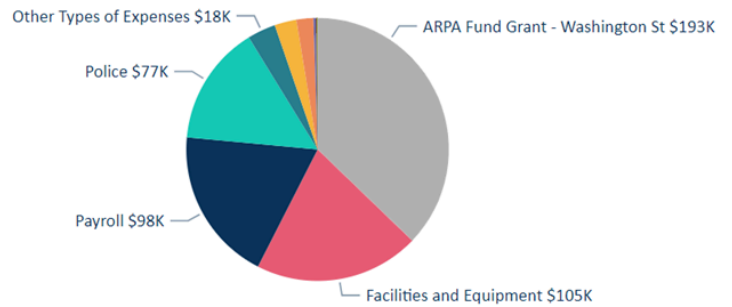
2020 Actual Expenses



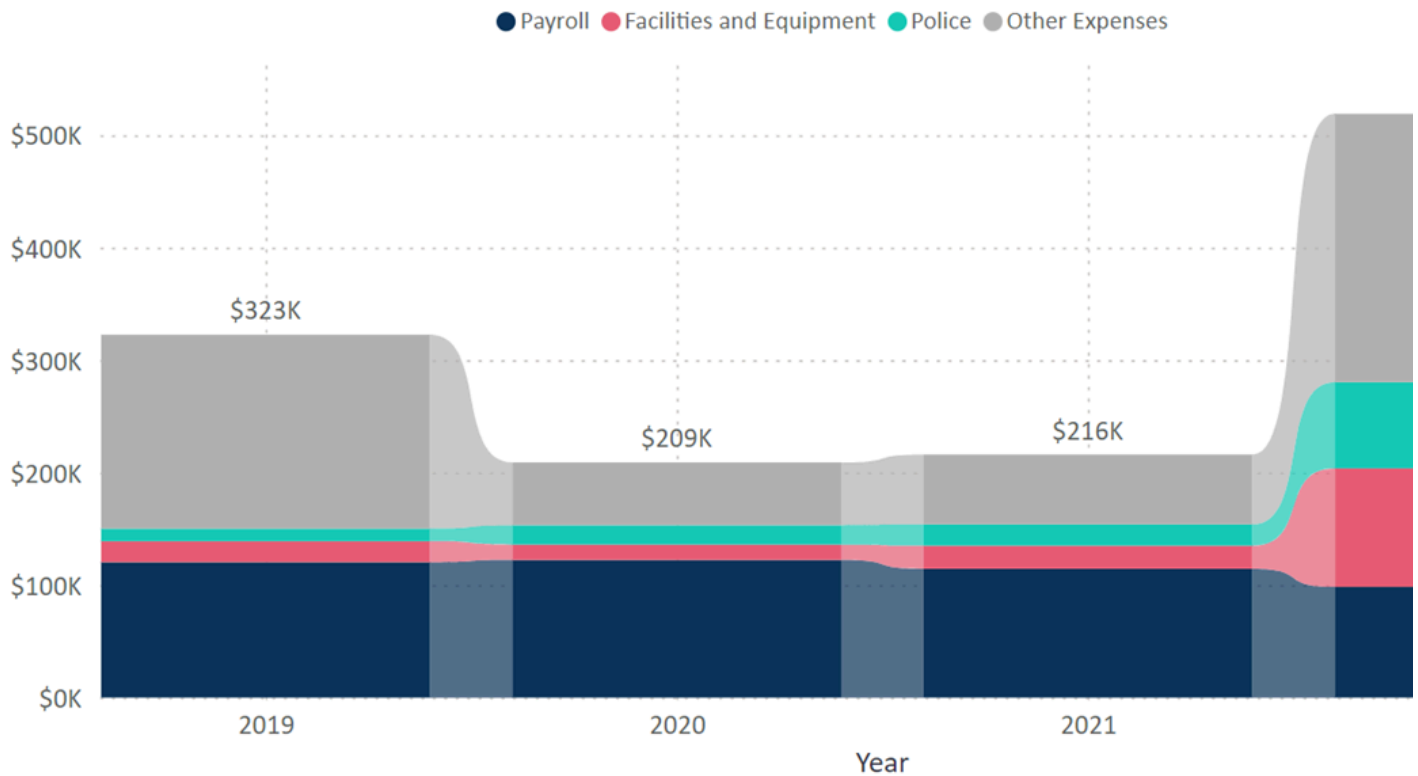
2021 Actual Expenses

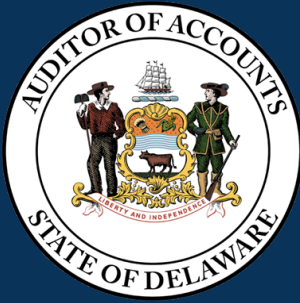


2022 Actual Expenses



Total Expenses by Year



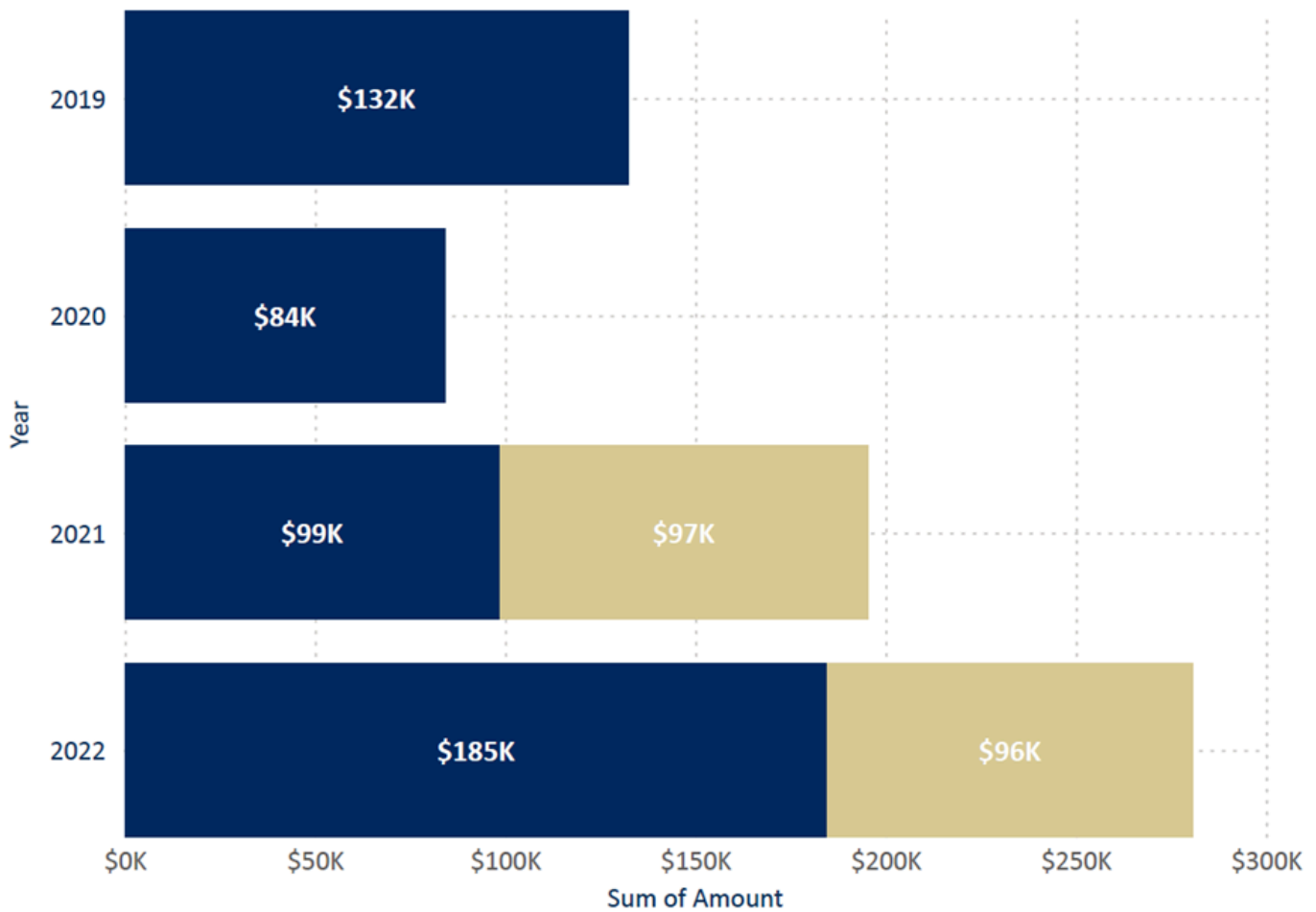


TOWN OF ELLENDALE PERFORMANCE AUDIT

REPORT SUMMARY FOR CALENDAR YEARS 2019-2022

Grants by Year

● ARPA Grants ● State and County Grants



State of Delaware
Office of Auditor of Accounts

Town of Ellendale

Performance Audit

Issuance Date: June 7, 2024



Lydia E. York
Auditor of Accounts
Delaware Office of Auditor of Accounts

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INDEPENDENT AUDITOR'S REPORT

Michael Workman, President Town Council 2023
Tom Panas, President Town Council 2024
Town of Ellendale
300 McCaulley Ave.
P. O. Box 6
Ellendale, DE 19941

Performance Audit Overview

The United States Government Accountability Office develops and promulgates government auditing standards that provide a framework for performing high-quality audit work with competence, integrity, objectivity, and independence to provide accountability and to help improve government operations and services. These standards are referred to as Generally Accepted Government Auditing Standards (GAGAS).

We conducted this performance audit in accordance with the GAGAS applicable to performance audits issued by the Comptroller General of the United States. These standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We are required to be independent of the Town of Ellendale and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Highlights and Conclusion

The Town Council of Ellendale (the "Town") engaged the State of Delaware Office of Auditor of Accounts for a performance audit (the "Audit"). The purpose of the Audit was to evaluate the efficiency and effectiveness of Town operations during calendar years 2019 to 2022. The audit objectives were to assess whether the system of internal controls was adequate and appropriate for the achievement of Town Council objectives regarding compliance, fiscal management, and governance. Audit testing was designed to evaluate key financial processes, internal controls, and compliance with applicable laws, regulations, and the Town Charter.

The 2023 Town Council inherited a Town with both challenges and opportunities. The substantial growth in Ellendale from real estate developments presents opportunities for increased tax revenue and increased property values as the growing Town attracts new businesses. The challenges facing Ellendale include establishing a robust infrastructure, institutionalizing governance with adequate resources, and creating comprehensive written strategic plans, budgets, policies, and procedures. Establishing proper internal controls to effectively guide, manage, and oversee the Town's continued development should be prioritized to ensure the Town's continued progress and long-term success. As the Town expanded, the increased demand for services and accountability highlighted the importance of addressing the Town's challenges. Doing so would enhance public perception, improve service delivery, and promote overall transparency. The Town Council hired a bookkeeper from a CPA Firm with expertise in QuickBooks accounting. This strategic hire is expected to strengthen financial integrity, streamline processes, and position the Town for better financial management.

The State Auditor's office notes that although significant work remains, the newly elected Town Council President, Vice President, and Treasurer took significant steps to implement changes throughout the

Audit. Of note during audit fieldwork, auditors observed Council members actively making incremental improvements to institute proper controls for Town operations. The State Auditor's Office commends the Town Council of Ellendale for its proactive stance in confronting its challenges by requesting this Performance Audit. The State Auditor's office would like to thank the Town Council for their cooperation with the audit and willingness to address challenges.

Delaware Auditor of Accounts (AOA) Authority: The State Auditor is authorized under 29 Del. C., §2906 to conduct post-audits of all financial transactions of all state agencies.

Acknowledgements: The Delaware Auditor of Accounts would like to thank the Town of Ellendale for their cooperation and responsiveness to our requests, questions, recommendations, and suggestions.

Lydia E. York
State Auditor
Office of Auditor of Accounts
Dover, Delaware

December 8, 2023

BACKGROUND

Town of Ellendale and Town Charter

The Town of Ellendale obtains its authority from the state constitution and/or statutes adopted by the state legislature. The Town has powers and functions requisite to or proper, for the government of the Town. Ellendale, a Town in Sussex County, Delaware, United States, incorporated in 1905, has a written Town Charter.¹ Charter amendments are governed by 22 Del. C. Ch. 8, such that when a majority of voters of the municipal corporation vote in favor of the proposed charter amendment or amendments, the Town's chief executive officer files copies with various state officials. After 30 calendar days in session, if the General Assembly doesn't reject the amendment, it becomes effective as if enacted into law. Delaware maintains municipal charters, accessible at <https://charters.delaware.gov/>.

Town Council and Governance

The Town Council is the group charged with legislative responsibility as well as governance and management of the Town of Ellendale. The powers, functions, and essential procedures are vested in an elected five-member Town Council. The Charter requires all Town Council members to be citizens of the State of Delaware and residents of the Town above the age of twenty-one years.

Currently, the President, Vice President and Treasurer are the primary managerial level Council members responsible for the overall operations of the Town. Council members have responsibilities for the control environment, operating governance, internal control awareness and risk oversight.

The Council holds monthly meetings, and all Council meetings are open to the Public except where otherwise prohibited. The Council Town Clerk maintains documentation and records of all meeting activities at the Town Office.

Town Council – Annual Elections and Terms of Service

The Town Council holds annual election held on the first Saturday in January. During the election, Councilmembers are chosen to serve a two-year term. Specifically, in alternating years, the election is held for two Council seats, and in the following year, the three remaining seats are elected. The Town coordinates with the state elections office for the use of election equipment for the municipal elections.

Town Council –Disqualification from Town Council Office

When a vacancy occurs in the Town Council due to death, resignation, or other reasons, a special meeting of the Council is called within 45 days to address and fill the vacancy for the remaining term.

Location and Organizational Structure

Ellendale Town hall administration is located on the first floor of the building at 300 McCaully Avenue, and is shared with the Town police, which is located on the second floor. The Town Council oversees critical functions such as public safety, public works, street maintenance, and overall administrative and operational activities. Additionally, the Town owns a designated Town Park and a warehouse adjacent to the Town office, which serves as a storage facility for maintenance equipment and supplies. The Town holds ownership of a plot of land within Ellendale, initially acquired with the intention of constructing a new Town office.

Town employees consist of the Town Clerk, the Police Chief with two part-time police officers, a Maintenance Worker, and a Tax Collector. The Tax Collector is an unpaid position and was hired and

¹ https://en.wikipedia.org/wiki/Ellendale,_Delaware

vacated during the audit. In addition, the Town hires various service vendors, as needed for IT, accounting and tax services.

Town Solicitor

The Town uses the services of a Town Solicitor for legal counsel on a situation basis (Freedom of Information Act requests, complaints, property tax delinquencies, annexation issues, etc.). The Town Solicitor also attends the monthly Town Council meetings.

Human Resource Management

The Council is accountable for ensuring compliance with State and Federal laws and regulations related to the development of the Town's human resources (HR) policies and procedures. This includes overseeing the hiring process, onboarding, and offboarding of all Town employees, as well as managing employee data and payroll. Currently, the Town does not mandate criminal background checks. Additionally, a paper personnel file is maintained for each Council member and Town employee.

Financial Management

The Town uses QuickBooks as its accounting system for all fiscal activities and has a banking relationship with M&T bank for its nine bank accounts.

Town Budget

The Town of Ellendale has adopted the calendar year as its fiscal year. Per the Town Charter, the Town Council is responsible for creating and maintaining an annual budget, containing the financial plan for conducting the affairs of the Town for the ensuing fiscal year not later than July 31 of each year. As a control, the budget sets a standard for the usage of resources, expected output, and the control of revenues and expenditures during the Town's fiscal year.

Cash Receipts and Handling

The Town accepts cash and checks, via mail, or in person. Once received the cash receipt is deposited into the Town's designated bank account and the accounting system is updated with the cash receipt.

Cash Disbursements and Expenditures

The President, Vice President, and Treasurer have the authority to make cash disbursements on behalf of the Town, including payroll. These disbursements can be made via debit card, physical check, or petty cash for minor expenses though payments made by check require dual signatures. Debit cards are assigned to specific Town Council members. Significant expenditures are deliberated and approved during the monthly Town Council meeting. The Town Charter specifies procurement guidelines for major purchases, and all expenditures must be supported by appropriate documentation.

Town Revenue

The Town raises revenue through various taxes, fees, fines, and permits. Typical licenses and fees include rental licenses, building permits, annexation fees, and other administrative fees.

Property and Capitation Taxes

The Town Charter grants the Town Council the authority to levy property and capitation taxes. Property taxes are typically levied on May 1st, but must be levied prior to July 1st of each and every year by charter, and are typically due by May 31st. Sussex County provides the tax role and assessment values.

Economic Conditions

The Town of Ellendale (The Town) with an approximate population of 527² Delawareans, is renowned for its industrial history and its convenient access to the beaches of southern Delaware. The population, which stood at 487 during the 2020 census, has seen a significant increase of 27.8% since 2010 and a remarkable 48.9% growth since 2000. Ellendale falls within the Salisbury, Maryland-Delaware Metropolitan Statistical Area. The Town's direct route to Delaware's beaches has contributed to rising property values and heightened construction demand over time.³ As a result, property and realty transfer taxes have become the primary economic driver for Ellendale. Recent annexations of developments into the Town have expanded its tax revenue base. Additionally, the robust housing market has attracted retirees from neighboring states due to Delaware's favorable cost of living. Barring major economic downturns, property annexations are expected to continue as market values rise.

² U.S. Census Bureau, Population Division. "Annual Estimates of the Resident Population for Incorporated Places in Delaware: April 1, 2020 to July 1, 2022 (SUB-IP-EST2022-POP-10)," May 2023.

³ https://en.wikipedia.org/wiki/Ellendale,_Delaware

FINDINGS AND RECOMMENDATIONS

FINDING 01: PROPERTY AND CAPITATION TAX PROGRAM

A. Tax Billing & Recordkeeping Gaps Condition/Context: The Town's tax billing records had various errors.

- **Data Analytics Review and Analysis:** The performance of data analytics over 2019-2022 tax periods found various outliers and potentials errors including invoice gaps, variances during recalculation, and mismatch of parcel identifiers compared to county records.
- **Property & Capitation Tax Billing & Delinquency Assessment:** A test of seventy-one accounts, selected randomly, found errors:
 - **Property Tax Calculation on Tax Billing Invoice:** The Town Charter establishes that there shall be applied a rate of tax on real estate per fifty dollars (\$50.00) of assessed value. Town records show that at times the rate applied to real estate taxes was based on one hundred (\$100) of assessed value; however, the rate was doubled. Through interviews, we understood the intention of the increased rate was to increase revenue, but by calculating the rate based on \$100 of assessed value, the revenue generated remained static. We re-calculated the invoiced tax on real estate, using both assessed value calculations, and found that 14 out of the 71 (20%) invoices did not match with our calculations.
 - **Tax Bill Invoice Terms:** The “Terms” field on the invoices showed inconsistency on fifteen accounts (21%).
 - **Invoice Timeliness:** Based on interviews, invoices are generated in the month of March. Twenty accounts (28%) had invoice dates beyond the expected date of completion.
 - **Due Date on Tax Bill:** Fifty-five accounts (77%) had due dates that were the same as the invoice date.
 - **Parcel Number on Tax Bill:** Six accounts (8%) had a mismatch of parcel identifiers when compared to county records.
- **Delinquent Accounts and Late Fees and Finance Charge(s):** Seventeen out of seventeen delinquent accounts or 100% had payment billing errors. Four accounts did not have a late fee assessed. Nine accounts had finance charges calculated/assessed incorrectly and eight accounts had no finance charge assessed. Thirteen accounts modified the original invoice to apply the late fee instead of generating a new billing invoice.
- **Real Estate Property & Capitation Tax Recordkeeping:** The Town did not keep complete records of all tax billing invoices, supporting documentation, and related correspondence.

B. Master Tax Roll Condition/Context: The Town of Ellendale relies solely on the annual property tax roll provided by the County for assessing property values and obtaining taxpayer information. There is no established process to independently verify the accuracy of County information. While the Town receives monthly change updates from Sussex County, there is no ongoing maintenance process to ensure timely incorporation of changes in taxpayer data.

C. Capitation Tax Condition/Context: There is no mechanism for accurately obtaining the number of residents over the age of eighteen per household for the capitation tax as the Town relies solely on

property ownership records (names on title) to assess the tax. The Town does not know if this information is correct and has no method to confirm those over the age of eighteen living with a resident. There is no certification requirement on the billing invoice to request the taxpayer to self-certify the accuracy of the information on the household.

D. Inconsistent Collection Practices Condition/Context: The Town's collection process is inconsistent. The Town has communications with the Town attorney and has assessed penalties and fines as accounts become delinquent, but this has not occurred equitably and consistently across all accounts. The prior Council President had arranged a payment plan with a resident. However, the Town Council was unable to provide documentation or records of the agreement and did not have a consistent process in place with how Town payment plans are to be handled.

E. Gaps in Property Tax Exemptions Condition/Context: The Town had gaps in their property tax exemption process including limited knowledge and a lack of a clear process and controls.

- List of Approved Exemptions & Related Supporting Exemption Documentation Packages: The Town does not track property tax exemptions and was unable to supply a list of approved exemptions or any other supportive exemption documentation.
- Property Tax Exemptions Application: The Town does not require an application for property tax exemptions and there was no exemption documentation in meeting minutes specific to the review and approval of tax exemptions.
- Exemption Removals: The Town was not proactively and consistently removing property tax exemptions on parcels that undergo a change in the ownership, either through the change in the property ownership or the death of an owner. This information should be available in regular reports from the Recorder of Deeds and Register of Wills.
- Eligibility Re-Determination Verifications: The Town lacks a process for periodically verifying continued eligibility for tax exemptions. Specific criteria, such as payment status (delinquency), single-parcel exemptions for seniors, land use (state purpose), and property held for investment are not consistently reviewed for eligibility.

Cause: The Town Charter lacks detailed procedures for managing the property tax and capitation tax program. Town turnover had resulted in a lack of continuity, inconsistency in processes, loss of knowledge transfer resulting in the Town employees not having a full understanding of how to manage the tax program. The Town has predominantly relied on historical practices rather than creating and implementing formal, clearly defined tax policies and procedures hindering consistent and transparent tax administration. The absence of robust internal control requirements and enforcement mechanisms results in insufficient quality control measures that allow inaccuracies to go unnoticed.

Effect: Inaccurate assessments can lead to unfair distribution of the tax burden, with some property owners paying more or less than their fair share (affecting the fairness and integrity of the tax system) and this may result in potential revenue shortfalls or overages. The public trust erodes with errors and mistakes in the tax program causing customer dissatisfaction and increased complaints, negatively affecting the reputation of the Town. Inconsistent practices and a lack of documentation increase the risk of errors in tax processes, potentially leading to errors in financial records and reporting.

Criteria: Charter of Ellendale; Documented Property and Capitation Tax Policy and Procedures from audit interviews, Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 01:

We recommend the Town Council takes these actions:

1. Develop a comprehensive property tax policy and procedure manual (standardized processes) to address all aspects of the program (from Tax Bill Creation/Generation, Delinquency and Collections, Tax Payment Recording, and Maintenance/Updates to Tax Property and other taxpayer information) and build the internal control framework. Recommendations for a comprehensive property tax policy include institutionalizing:
 - a. a Town Council tax program oversight mechanism and annual evaluation of the property tax program;
 - b. a review process over the generation of original annual tax and delinquency billings;
 - c. independent calculation/verification of annual tax billings and delinquency billings;
 - d. periodic review of the Sussex County Tax roll to include verification/validation of the accuracy of the information contained;
 - e. Utilize Microsoft Excel, or similar application, to analyze tax data for identification of potential errors during each annual cycle of tax billing.
 - f. Implement an ongoing review and verification/validation control of information on the Sussex County Tax Roll.
2. Evaluate whether there is added functionality in QuickBooks which could be used to further automated the property tax program.
3. Establish a control process to track and maintain taxpayer changes daily. Ensure this information is updated and entered into the accounting system either immediately or at least monthly. Additionally, require supporting documentation and review for accuracy.
4. Discuss the capitation tax in upcoming monthly meetings. Explore options to either eliminate the tax or establish a structured process for gathering resident information, particularly for individuals over the age of eighteen within households. If the tax persists, consider implementing a taxpayer self-certification process as a minimum requirement.
5. Develop and implement a comprehensive process for managing Collections and Payment Plan arrangements. Document this process as part of a thorough policy and procedure manual for the Tax Program, covering Collection Practices and Payment Plans.
6. Develop and implement a structured process for property tax exemptions in the Town of Ellendale. Seek legal guidance, such as from the Town Solicitor or an attorney, to determine eligibility for exemptions. Require approval from the Town Council for all Property Tax Exemptions. Implement an application process for Property Tax Exemptions, conduct an annual verification of eligibility, and document associated exemption policies and procedures.
7. Explore the possibility of requiring tax exemption applicants to be up-to-date on their tax bills with the Town in order to remain eligible for a property tax exemption.

FINDING 02: CASH RECEIPT AND HANDLING

Condition Context: The cash handling internal controls are insufficient to ensure that cash receipt payment collections are accounted, safeguarded, deposited, and recorded promptly into the bank accounts and accounting system. Testing of a sample of forty cash receipt/deposit documentation found various issues:

Oversight	The oversight of cash collection transactions did not detect problems that adversely affect the Town’s ability to record and report financial data accurately and in a timely manner.
Recordkeeping & Documentation	Documentation for thirty-four (34) cash receipts/deposits was missing and the miscellaneous receipt book records prior to 7/7/2020 were unavailable to the auditor.
Payment Tracking & Logging	Collections received through the mail are not recorded at the first point of collection by use of a mail log or other means to log and track payments (checks or cash) received by mail.
Restrictive Endorsement	Two checks were missing endorsement; Council President only endorsed six checks.
Date Stamp on Receipt	Checks received directly by mail or in person are not date stamped upon receipt.
Pre-Numbered Payment Receipts	The pre-numbered payment receipt for each payment received are not used consistently for all payments; tax receipts are not recorded in a receipt book; there have been instances where Town resident claims to have paid in cash but has no evidence of payment and the Town has no record of the receipt of the payment.
Negotiable Instrument Limit	An established maximum negotiable instrument limit that can be kept on-hand prior to deposit in the bank does not exist.
Physical Security	The locks in the file cabinet that house check stock and checks were inoperative at the start of the audit; however, this issue was corrected during the audit. Checks and cash collections are accessible in one bank bag by more than one individual (Town Clerk, Tax Collector, or any Town Council member).
Daily Cash Reconcilement	There is no daily reconciliation of the number of collection payment receipts to the accounting system receipt register and general ledger.
Cash Receipt Output Reports Use	The accounting system reports available to manage cash receipt transactions are not used.
Bank Account Reconcilement	Although the accounting system showed a bank account reconciliation completed monthly, the process did not detect transactions that were not posted to the accounting system, the bank account, or posted in the wrong accounting period.
Accounting Cutoff	Ten cash receipt payments tested were recorded in the incorrect accounting system because an effective date of receipt was not used in the transaction posting (Month or Next Fiscal Year).

Posting Error Examples Discovered During Testing:

- Two check payments were not recorded either as a deposit into the bank account or within the Town accounting system.
- Three check payments deposited into the bank account not recorded in the Town’s accounting system.
- Five cash receipt payments were not recorded in the Town accounting system.
- Twelve payment receipt transactions were recorded in the accounting system between seven (7) to twenty-six (26) days after the receipt of funds.

Cause: The process of receiving cash is unstructured and has internal control design flaws.

Effect: The Town had missing cash receipts and supporting documentation resulting in errors in accounting for cash receipts in the bank statement and accounting system and indicators of potential fraud. Financial reporting is complicated by posting transactions outside of the accounting period and the inability to properly reconcile receipts to the general ledger and bank statements. Loose controls over the physical security of cash increases the risk of cash being misappropriated without detection and accountability.

Number of Receipts Tested	Number of Receipts Missing Supporting Documentation*	Number of Missing Deposit Slip or Cancelled Checks	Number of Receipts Missing from the Bank Statement	Number of Receipts Missing from the QuickBooks System
Forty (40) Transactions	Thirty-Four (34) Transactions	Five (5) Transactions	Two (2) Transactions –	Five (5) Transactions -
\$33,861.10	\$33,261.10	\$625.00	\$195.00	\$5040.16

*The Town did not issue receipts for all cash receipts.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014, Town Charter, Documented Cash Receipt and Handling Policy and Procedures from audit interviews, and 22 Del. C. §504 (b)(8).

RECOMMENDATION 02:

We recommend the Town Council takes the following actions:

1. Institute a process to deposit cash receipts and enter data in the accounting system immediately upon receipt, properly safeguard funds and ensure timely data entry on the effective date of receipt.
2. Keep supporting documentation on file for all receipts of cash along with documentation of method received (mail vs. in person) and date received. Document the receipt number or copy of receipt on supporting documents.
3. Issue individual locking bank bags to personnel responsible for cash collection/receipt and provide individualized secure cabinets to safeguard and ensure accountability.
4. Document all receipts of any kind in the receipt books to account for any funds received.
5. Archive and safekeep the completed receipt books in a locked storage area until record retention schedule requires destruction.
6. Perform the Daily/Weekly/Monthly reconciliations between the cash receipt books, the M&T bank deposits and statements and the QuickBooks accounting system to ensure accuracy. For adequate oversight, reconciliation should be accomplished by someone other than whomever performs receipt and recording of cash receipts.
7. Establish a Negotiable Instrument Limit for cash and checks that can be kept on-hand prior to deposit in the bank.
8. Consider Remote Deposit Capture (Deposits Via Scanning) and discontinued cash acceptance by the Town.

FINDING 03: PAYROLL

Condition/Context: The Town payroll processing structure, practices, and controls had various control gaps and inconsistencies in payroll processing based on testing of 2019-2022 payroll cycles that included a sample of thirty-six (36) payroll cycles and seven (7) employees.

<p>Second Review Employee Setup & Maintenance</p>	<p>The current payroll process and internal controls does not include a secondary review for the setup or maintenance employees for accuracy, completeness, and validity. Only one of three authorized people (Town Council President, Vice President, or Treasurer) performs the setup or maintenance of employees and there is no validation process in place. When the Town hires new personnel, the payroll accounting system is used to record the new employee profile, start date, and compensation. Maintenance of a current employee profile occurs based upon an authorized change (compensation change, address change etc.) without independent verification.</p>
<p>Post Payroll Review & Reconciliation</p>	<p>The current payroll process and internal controls does not include a post payroll review and reconciliation control for each payroll processing cycle. The Town Council President and a 2nd Council Member (Vice President or Treasurer) review and approve payroll checks only. There was no approved payroll register for the pay periods tested.</p>
<p>QuickBooks Payroll Report Review</p>	<p>The accounting system (QuickBooks) used for payroll processing offers key payroll reports including a Payroll Register; however, the payroll process does not include a review of any of the payroll related supporting reports.</p>
<p>Payroll Processing Exceptions</p>	<p>Testing of payroll processing of a sample of thirty-six (36) payroll cycles and seven (7) employees during the period of 2019-2022 found exceptions which are indicative of problems in the internal control system and a lack of standardization:</p> <ul style="list-style-type: none"> ▪ <u>Timesheet Accuracy, Verification and Authorization/Approval</u> <ul style="list-style-type: none"> ○ Documented supervisory type approval was not in place for seven (7) out of twenty-two (22) payroll cycles. ○ Documented employee type approval was not in place for nine (9) out of twenty-two (22) payroll cycles. ▪ <u>Payroll Checks Dual Signature Authorization/Approval:</u> Fourteen (14) out of thirty-six (36) payroll records were either signed by payee (employee receiving the paycheck), missing the required authorized signatures. <ul style="list-style-type: none"> ○ Eleven signed by the payee of the payroll check. ○ Three signed by an unauthorized signer of the payroll check. ▪ <u>Unsupported Payroll/Unsubstantiated Compensation Paid to Employees for Payroll Processing File and/or Employee Personnel File</u> <ul style="list-style-type: none"> ○ Unsubstantiated Payroll Compensation: A total of \$71,725.65 was paid for the three (3) year period from 2019-2021, however, compensation for Town Council employees is documented at \$1200.00 per year. A total of \$14,200 was paid to a Council employee for the three (3) year period from 2019-2021 yet the Council employee only worked part of 2021. The Town’s records had no supporting authorizing documentation from the Town Council authorizing these payroll payments. In reviewing a sample of the payroll processing cycles, we saw one payroll had a note saying salary for 1.0 hourly rate of \$1,887. We also found that

	<p>Town Council employees were signing their own paycheck and then signed each other’s paycheck.</p> <ul style="list-style-type: none"> ○ Unsupported Employee Personnel File Compensation Documentation: Thirty-Four (34) out of thirty-six (36) payroll records did not have supporting compensation authorization documentation for six (6) out of seven (7) employees in the Employee Personnel File (in the form of a job offer letter or a payroll maintenance form to support what compensation should be paid to individual employee). Of the six (6) employees four (4) were Council member employees and two (2) were regular employees The Town Council was unable to supply documentation to support the amount of salary or bonus pay made to each of these employees. The Town Charter states under Section 14 (C) “The Council shall cause to be kept a full and complete record of all officers appointed and employees and agents hired by the Town containing the names of such officers, employees, and agents, the dates and term of their appointment or employment, the salary or compensation and the date of the termination of service.”
Payroll Processing File Documentation	<ul style="list-style-type: none"> ▪ Testing of four (4) out of four (4) Town Council members for the annual \$1,200.00 salary revealed that there was no payroll documentation in the payroll file (payroll form etc.) to support compensation for that payroll processing cycle. ▪ Ten (10) out of thirty-six (36) payroll records did not have supporting documentation to allow AOA to confirm the earning type (whether Regular, Over-time, Bonus, Grant).
Unsupported Payroll Advances	<ul style="list-style-type: none"> ▪ Payroll checks were paid to employees in advance of the normal payroll cycle for eight (8) of out of thirty-six (36) payroll records [evidenced in QuickBooks with a Pay Cycle End Date that included Future Dates].
Insufficient Records Documentation	<ul style="list-style-type: none"> ▪ Four (4) out of thirty-six (36) payroll records were missing the original paystubs from the Town payroll processing file records. These payroll records were specific to two (2) Town Council employees.
Inconsistent Pay Period/Pay Date	<ul style="list-style-type: none"> ▪ Eleven (11) of twenty (20) pay records receiving Bi-Weekly paychecks did not follow a 14-day bi-weekly Pay Period. ▪ Fifteen (15) of twenty (20) pay records receiving Bi-Weekly paychecks did not follow a 14-day bi-weekly Pay date.
Payroll Check Stock	<ul style="list-style-type: none"> ▪ Two (2) out of thirty-six (36) payroll checks were out of check number sequence evidenced by a higher check number issued for a Pay Period and Pay Date prior to a lower check number issued in the series of checks. These payroll records were specific to one employee (2 checks).
Withholding	<ul style="list-style-type: none"> ▪ One individual reported that federal withholding had not occurred from her paychecks. Testing determined there were no withholdings for 2022 Federal Taxes for this individual. Withholdings began April of 2023 when the W4 was updated and signed.

Cause: Internal controls had control design flaws.

Effect: Employees received payroll compensation without proper documentation, and some were allowed to sign their own paychecks. Additionally, the inaccurate withholding of Federal Taxes in 2022 went unnoticed. These practices pose unintended financial, compliance, and reputation risks for the Town. Furthermore, errors or potential fraud in the payroll records may not be promptly detected.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014, Town Charter, Documented Payroll Policy and Procedures from audit interviews.

RECOMMENDATION 03:

We recommend the Town Council takes these actions:

1. Strengthen oversight of payroll processes and controls, as well as the capabilities and reports of the accounting system.
2. Regularly review critical financial processes, like payroll, and enforce documentation standards to ensure effective management, control, and compliance. If resources are limited, consider implementing compensating controls.
3. Develop and implement clear written policies and procedures for payroll, covering criteria, internal controls, roles, and responsibilities to standardize the entire payroll process from start (timesheets) to finish (post payroll reviews).
4. Conduct a thorough review and reconciliation after each pay cycle, using QuickBooks reports to identify and correct discrepancies, promoting robust internal controls.
5. Implement a second review for new employee setup and ongoing maintenance in the payroll system.
6. Update personnel files to ensure they contain approved compensation amounts, details of agreed-upon compensation, and bonus eligibility.
7. Establish a standardized form or template for payroll maintenance to ensure consistency and adherence to criteria and protocols.
8. Evaluate automated timesheet approval process using the electronic signature feature of Adobe as another method to obtain a signature and date stamp on a timesheet.
9. Enforce dual signatures and review canceled check signatures to maintain policy adherence.
10. Review check numbers in check stock to ensure they are used in sequential order.
11. Implement a controlled structure for changes to sensitive employee data, requiring secondary review and verification in QuickBooks to prevent unauthorized alterations.

FINDING 04: CASH DISBURSEMENTS & EXPENDITURES

Condition/Context: The Town did not follow Town Charter procurement requirements, expenditures were not supported with documentation, and all approval requirements were not enforced. The Town Council needs to enhance oversight of cash disbursements and expenditures. Without access to key supporting documentation, the Town cannot effectively identify errors, whether intentional or accidental, in the expenditure and procurement processes.

Data analytics reviews found the following:

1. **Expenditures with Questionable Purposes:** In fiscal year 2019, we identified various expenditures on food and other items that raised potential questions, particularly regarding purchases from fast-food establishments and convenience stores. We have communicated this information to the Treasurer for further review.

Testing of sixty (60) expenditures from January 2019 through December 2022 found the following:

2. **Unsupported or Unapproved Disbursements & Expenditures**

- Non-Compliant Expenditure Approvals: Among the sampled expenditure transactions, four (4) lacked proper approval. Specifically, two (2) debit card purchases had only one signature approval on the invoices, while two (2) other expenditure transactions (debit card purchases) had receipts but lacked approval signatures altogether.
- Supporting Documentation: The Town had no supporting documentation (including original itemized receipts and invoices) for all expenditures. This included thirteen (13) out of sixty (60) sampled expenditure transactions, which included twelve (12) debit card purchase(s) and one (1) check disbursement. Despite the absence of supporting documentation, these transactions seemed to be for a legitimate and valid purpose. Two (2) transactions related to contracts lacked any supporting documentation or proof of the contract.
- Potentially Unallowable Expenditures: The audit highlighted potentially unauthorized purchases made with Town funds. These included reimbursements for cell phones, personal vehicle gas expenses, cell phone bill payments for former Town Presidents, payments for a computer tablet, and unexplained paving expenses for the Ellendale Fire Hall parking lot.
- Accounting System Errors: The Town encountered errors in accounting for expenditures within the accounting system. These errors included mislabeling or failing to label the payment type (e.g., debit card or check disbursement), incorrect labeling of payroll expenses, and improper categorization of various other expenditures.
- Debit Card Usage vs. Dual Signature Requirement: The Town was bypassing its dual signature requirement on check disbursements by frequently resorting to debit cards for purchases. These cards were issued to employees whose names were not listed on the cards, and the Town Council members had not established additional control parameters with the bank for these debit cards.

3. **Procurement Expenditures -Not Following Town Charter Procurement Rules**

- Mandated Procurement Requirements: The Town is not adhering to procurement requirements for expenditures when making purchases exceeding \$10,000, as outlined in Section 26 of the Town Charter. Additionally, the Council has not implemented controls to monitor compliance with these requirements.
 - Eight (8) out of eight expenditure transactions exceeding \$10,000 lacked supporting documentation to demonstrate compliance with specific procurement requirements, including evidence of proper Town Council approval. The absence of such documentation in these critical areas of the procurement process indicates deficiencies in the internal control system.

- Governing Documents: The Town's primary governing document, the Town Charter, outlines the framework for procurement procedures, especially for expenses exceeding \$10,000, aimed at securing the best value for the Town.
 - The Town was found to be lacking additional governing documents such as written policies and procedures, which provide more detailed guidance, as well as procurement-related forms and templates. Moreover, certain Town ordinances or resolutions were unaccounted for, either lost or missing.
 - The procurement framework and processes outlined in the Town Charter have significant limitations in coverage.
 - ❖ The Charter does not address conflict of interest; therefore, conflict of interest disclosure is not required from vendors, potentially resulting in an unfair process and lower value for the Town.
 - ❖ The Charter does not include provisions for verifying a vendor's or contractor's good standing, prohibiting employees from accepting gifts, favors, or money, or addressing emergency situations, among other examples.

Cause: The Town has internal control design flaws and insufficiently enforced controls and oversight mechanisms by the Town Council. Further, records were disorganized, and documentation was lost or unaccounted for during the 2022 to 2023 Council transition.

Effect: The Town's failure to maintain strong recordkeeping practices, provide proper supporting documentation, enforce dual signature requirements, and prevent employees from signing their own paychecks poses a significant risk of fraudulent activities. Without independent verification to confirm the legitimacy of expenditures, the Town is vulnerable to financial losses and damage to its reputation. Without a second signature for validation and supporting documentation verification, there is an increased risk of errors in check disbursements including payroll processing, which could lead to overpayments, underpayments, or other inaccuracies which can negatively affect the accuracy of financial reporting. The absence of clear and documented policies and procedures may lead to non-compliance with the Town Charter, potentially facilitating nepotism or favoritism. Even if only appearing to exist, such practices can compromise the integrity of the procurement process.

Criteria: Town Charter; Documented Cash Disbursement and Expenditures Policy and Procedures from audit interviews, Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 04:

We recommend the Town Council takes the following actions:

The Town Council:

1. Mandate the documentation of Town Procurement, Cash Disbursements, and Expenditures policies and procedures in writing.
2. Implement thorough oversight of the Treasurer's duties to ensure completion, including the preparation and presentation of comprehensive monthly financial reports. These reports should encompass cash receipts and disbursements to assist the Council in approving and monitoring financial activities.
3. Require the Town Council to oversee and enforce the procurement process as prescribed by the Town Charter.
4. Require the Town Council review and approve bills before payment. The review should ensure that each bill and disbursement has detailed supporting information and is for the proper use of Town money. If the expenditure is for a smaller amount, the Council should confirm dual signatures are recorded on the invoice prior to payment.
5. Require that Town employees promptly provide necessary supporting documentation for check disbursements and debit card purchases.

The Treasurer should:

6. Develop a recordkeeping process inclusive of a file system that ensures all supporting documentation is organized and easily accessible.
7. Develop a cash disbursement/expenditure checklist to ensure all expenditures have required supporting documentation and the proper dual approval before a payment is made.
8. Develop a procurement checklist to ensure compliance with procurement requirements as stated in the Town Charter.

FINDING 05: CLEARED CHECK DISBURSEMENTS

Condition/Context: Testing of the dual signature policy and cleared checks from the M&T bank general fund account spanning January 2019 to December 2022 revealed instances of non-compliance with Town check disbursements, and the absence of monitoring of the issues by the Town Council.

- Town employees were found to be signing their own paychecks (see Table 1), a clear conflict of interest when handling compensation payments.
- Checks are being signed by only one approved signer (see Table 2), despite the policy requiring two signatures. This resulted in 17 checks totaling \$32,717.33 having only one authorized signature in violation of the Town Charter’s dual signature requirement.

Year	Count	Amount
2019	28	\$ 26,145.00
2020	24	\$ 24,004.36
2021	14	\$ 18,376.85
2022	2	\$ 2,216.4
Total	68	\$ 70,742.61

Table 1

Upon review of cleared checks from the General Fund bank account for January 2019 through December 2022, the above count and amount checks had Town employees sign their own checks.

Year	Count	Amount
2019	10	\$ 30,315.65
2020	2	\$ 464.86
2021	4	\$ 752.34
2022	1	\$ 1,184.48
Total	17	\$ 32,717.33

Table 2

Upon review of cleared checks from the General Fund bank account for January 2019 through December 2022, the above checks had only had one approved signature,

Cause: The Town has internal control design flaws and/or insufficiently enforced internal controls.

Effect: The absence of dual signature weakens internal controls, making it easier for unauthorized or inaccurate transactions to occur without detection. Without a second signature for validation, there is an increased risk of errors in check disbursements, leading to overpayments, underpayments, or other inaccuracies which can negatively affect the accuracy of financial reporting.

Criteria: Documented Cash Disbursement Policy and Procedures from audit interviews, Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 05:

We recommend the Town Council review and strengthen internal controls including segregation of duties by setting up rigorous oversight and review procedures to prevent unauthorized check endorsements and payments. A clear segregation of duties should be enforced to prevent an employee from signing their own paycheck or authorizing payments to themselves, ensuring an added layer of control and accountability.

FINDING 06: SEGREGATION (SEPARATION) OF DUTIES

Condition/Context: The Town had various segregation of duties conflicts without sufficient compensating controls.

Cause: The Town does not have policies that mandate segregation of duties or the implementation of compensating controls and has historically run with limited personnel.

Effect: Proper separation of duties is one of the most effective internal controls measures any organization can take to increase the chances of detecting errors and reduce the risk of fraud. When any single person has too much control over a system, transaction(s), or critical functions, it creates an increased opportunity and likelihood that manipulation of system data and transactions, errors, misappropriations, or fraud could occur without detection.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 06:

We suggest that the Town Council appropriately segregate duties and consider utilizing a Segregation of Duties Matrix. In cases where complete segregation or separation of duties is not feasible, compensating controls should be identified and documented as required within the Town's detailed written policies and procedures to address this weakness.

FINDING 07: COMMUNICATION & DOCUMENTED POLICY & PROCEDURES

Condition/Context: The Town did not have comprehensive written policy and procedures (manuals), checklists, and various guidelines to govern its operations and decision-making processes and clearly guide its employees. Further, there is no clear accountability and channel of communications to communicate essential information, for example, such as changes to laws and compliance requirements in the human resources area. Note: The Town Council did approve a "Personnel Manual" in late 2022, however the manual was pending implementation.

Cause: The Town's organizational structure has led to insufficient communication, primarily because it operates without written policies and procedures. This lack of documentation hinders the Town's efficiency and effectiveness, often leaving new employees to navigate processes, locate records, or find information on their own. Consequently, employee turnover often results in the need to reinvent processes as new employees replace departing ones.

Effect: The absence of clear policies, procedures, and processes leads to operational and financial inefficiencies, inadequate resource allocation, inconsistent practices, accountability issues, lack of clarity, legal and compliance risks, as well as errors and mistakes.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014; The Government Finance Officers Association's (GFOA) guidance on Adopting Financial Policies.

RECOMMENDATION 07:

We recommend the Town Council takes the following actions:

1. Establish a policy and procedure framework to include the setup of formal process for developing, reviewing, and approving a comprehensive set of written policies and procedures that includes clear roles and responsibilities for Council members and Town employees, and a central repository for these documents. Further, the Town should follow a structured approach to identify, assess, and prioritize areas for policy and procedure development and implementation using a prioritization matrix and consider a phased approach for this initiative based on current resources.
2. Implement a process for regular periodic review and updates of policies and procedures to adapt to changing circumstances and the Town's evolving needs.
3. Develop a clear channel of communications specific to policy and procedures between both Town Council Members and Town employees to prevent future misunderstandings or lack of knowledge.
4. Consider supplying education and training for Town Council members and Town employees on proper use and application of the written policy and procedures.

FINDING 08: TOWN BUDGET

Condition/Context: The Town failed to establish a budget for 2023, which serves as a multifaceted control mechanism. Additionally, there was no evidence provided for the existence of budgets for the years 2022, 2021, 2020, or 2019. However, according to the Treasurer, there was a budget in place for 2022. A review of available Council meeting minutes revealed that the budget was discussed only once.

Cause: Town Council members have experienced a lack of public pressure regarding the necessity for an annual budget and associated fiscal management.

Effect: The absence of a budget creates a critical deficiency in the fiscal management of the Town and non-compliance with the requirements of the Town Charter. Failure to establish a budget means that the Town lacks a formal financial plan detailing anticipated revenues and expenditures for the upcoming fiscal period. This absence of budgetary targets and measures results in the absence of a framework for evaluating financial performance or detecting deviations from planned financial objectives.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014; The Government Finance Officers Association's (GFOA) guidance on Budgeting; The Charter of Ellendale.

RECOMMENDATION 08:

We recommend the Town Council takes the following actions:

1. Develop a comprehensive budgeting process for creating an annual budget ensuring it covers all areas, programs, projects, and initiatives and incorporates legal and regulatory/statutory compliance.
2. Engage all key stakeholders in the budgeting process to gather input and ensure alignment with the Town priorities and goals.
3. Implement a transparent budget process which includes clear documentation and public accessibility.
4. Set up a process for regular review and update of the annual budget based on the times established in the Town Charter and so that the annual budget remains responsive to changing circumstances and evolving Town needs.
5. Include the Budget on the Agenda of each of the monthly Town Council meetings, ensuring that Council members regularly and systematically discuss financial matters.
6. The Treasurer should provide prompt and comprehensive financial reports that compare budgeted figures with actual financial results, which should be distributed to Council members in advance of the meetings to allow for informed discussions. Encourage Council members to engage in in-depth analysis of the budgeted versus actual status, finding areas of concerns, variance explanations, and potential corrective actions where budget targets are not being met. Require prompt actions be taken to investigate discrepancies or issues found during the budget review and supply updates at the next meeting.

FINDING 09: COUNCIL OVERSIGHT OVER TOWN CHARTER COMPLIANCE

Condition/Context: A review of a selected number of requirements found key provisions outlined in the Town Charter not followed and the Town Council did not have a structured oversight to prevent the non-compliance and gaps in governance. Further, the charter lacks provisions related to ethics, code of conduct, and conflict interest. The examples are:

- The Town is not in compliance with Section 22 of the Charter mandated budgetary requirements and processes with regard to specific fiscal year defined dates for budget approval.
- A property tax levy rate change approved by Council did not result the required Section 15 Charter revision (Note: Council was working to address this during the audit).
- The Town does not have a process for verifying Council members' criminal backgrounds despite Section 3 and Section 11 Charter requirements that determine eligibility to serve as a Council member.
- The Town is not in compliance with Charter Section 26 regarding the requirement for competitive bidding for contract expenditures over ten thousand (\$10,000) dollars.
- The Town is not in compliance with the Charter Section 14 regarding the requirement to keep "a full and complete record of all officers appointed and employees and agents hired by the Town containing the names of such officers, employees, and agents, the dates and term of their appointment or employment, the salary or compensation and the date of the termination of service."

Cause: The Council did not have the oversight and accountability mechanisms in place to ensure compliance. The ambiguity in the language and writing style of the Charter created confusion through differing interpretations.

Effect: The gaps in a structured oversight mechanism creates legal and governance concerns. There is a potential for legal liability, ethical dilemmas, public trust erosion, reputation damage, and operational efficiencies.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014; The Charter of Ellendale.

RECOMMENDATION 09:

We recommend the Town Council includes agenda items on their fiscal year meeting schedule for the oversight of its compliance with various Town Charter requirements and allow sufficient time for review of these areas.

FINDING 10: PETTY CASH

Condition/Context: The petty cash fund did not have adequate internal controls or proper oversight to prevent misappropriation.

Absence of Defined Controls & Oversight	There is a lack of established controls and oversight mechanisms to regulate the use, replenishment, and approval processes for the fund; there are no written policies and procedures surrounding the fund or limits to the authorized amount in the petty cash fund.
No Designated Custodian	While it was understood that the Town Clerk was the custodian of the petty cash fund, access to the fund was not restricted to specific designees as multiple individuals handled the petty cash account.
Lack of Reconciliation	Petty cash funds are not subject to regular reconciliation and supervisory oversight. There was no independent count or verification of balances in this account and the accounting system for the audit period reflects that the petty cash fund had not been subject to reconciliation.
Inadequate Documentation /Recordkeeping	The petty cash fund transactions lacked proper documentation and control, including the lack of a petty cash voucher form to record disbursements or a petty cash log to record other activity.
Cash Count	During a cash count, we encountered difficulties reconciling the money and receipts, resulting in a materially insignificant discrepancy of \$5.00.

Cause: The Town has followed historical practices in how they use petty cash rather than creating and implementing a formal, clearly defined, and communicated policy and procedures on petty cash management.

Effect: A cash count of petty cash during the audit found a minor \$5.00 discrepancy. Weak controls create an environment that is conducive to fraudulent activities, such as submitting false reimbursement claims or manipulating and misusing petty cash records. Insufficient oversight would not prevent unauthorized withdrawals.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 10:

We recommend that the Town Council discontinue the use of the petty cash fund and instead implement either an employee reimbursement form or a check process for minor expenditures. Alternatively, they could consider utilizing a properly controlled debit or credit card for such expenses. If the Town wishes to maintain the petty cash fund, it is essential to establish proper internal controls and ensure effective oversight.

FINDING 11: TOWN COUNCIL RECORDS MANAGEMENT

Condition/Context: The Town Council held regular monthly meetings as well as periodic special meetings; however, current practices do not involve sessions where Council members actively engage in tasks, discussions, or problem-solving related to Town business. Several regular meeting minutes, agendas, and sign-in sheets were missing. Additionally, there was no comprehensive paper or electronic file listing all ordinances and resolutions, and some records appeared to be lost or destroyed. Certain important documents and materials referenced in meeting minutes were not consistently attached, available, or referenced. Moreover, there were inconsistencies in the approval and signoff processes for meeting minutes, leading to delays in approval for twelve instances of available minutes reviewed. Furthermore, Council meeting minutes were not accessible on the Town's website, limiting public transparency and accountability.

Cause: The current Town Council meeting packages inherited from prior Council members did not exhibit defined record-keeping and document management protocols. Further, some electronic records were unavailable and may have been lost during the 2022 to 2023 Council transition.

Effect: The absence of accounted records creates gaps in the historical documentation of Council activities, impedes the clarity of discussions and decision-making processes, making it challenging to fully grasp the context of Council activities. This condition adds to the difficulty in tracking the progression of initiatives and issues over time. The loss or mismanagement of meeting package records may also have various consequences, affecting various aspects of governance and public trust, including compliance issues and potential legal consequences. The inability to access important records can frustrate the public and lead to belief of ineffective governance and erode trust. The missing signoffs and approvals are indicative of potential gaps with the validation process and can raise questions about accuracy and integrity of the information and could lead to concerns about the validity of decisions made during Council meetings.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 11:

We recommend the following actions be taken by Town Council to strengthen and fortify the existing meeting minute packages:

1. The Council should establish standardized templates, consistent naming and filing systems, and appoint designated individuals responsible for providing clear accountability. Additionally, the Council should implement a quality assurance process to ensure the accuracy and completeness of records.
2. The Council should standardize a clearly defined format and schedule a timeframe for the approved minutes to be promptly signed and appropriately dated by authorized persons.
3. The Council should require cataloging and attaching all referenced or discussed documents to meeting minutes, each with a clear reference number. Additionally, the Council should consider implementing a checklist to ensure all required attachments are included.
4. Council should make meeting minutes accessible online by regularly publishing minutes to the Town website.

FINDING 12: TOWN RECORDS MANAGEMENT PROGRAM

Condition/Context: The Town does not have a plan to efficiently manage records, including both physical and electronic records, and was not following a record-retention schedule. The audit found the Town had missing meeting minute documents, ordinances, and resolutions. Other paper and electronic records appeared to be lost or destroyed during the 2022 to 2023 Council transition. The Town had a substantial number of paper records (including those more than 5 years old) which were unorganized and located throughout the office. Further, the Town has not named priorities for records management to include what records are historical records and has not defined a standard for deciding what is considered historical. The Town had no plan or timeline for digitizing records, and has not evaluated or addressed risks, such as destruction, loss, mutilation or deterioration, to stored physical records.

Cause: The existing records management program inherited from previous Council members lacks effective, transparent, and efficient internal controls. Clear accountability, defined record-keeping and document management protocols are not working effectively.

Effect: The loss of records for a Town can have various consequences, affecting various aspects of governance, services, and public trust. This loss can create compliance issues, potential legal consequences, disrupt critical services and cause operational inefficiencies, or have fiscal impact including difficulties in accounting, financial reporting and may also result in financial mismanagement.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 12:

We recommend the Town Council to adopt a thorough records management strategy. This should encompass regular data backups, secure storage (both physical and digital), and efforts to digitize paper records. Additionally, criteria should be established and documented for historical documents to ensure their indefinite preservation. The Town should also develop or review and revise a record retention schedule, clearly outlining categories of records and ensuring proper inventory management. It is advisable for the Town to seek guidance from the Town Solicitor as necessary to ensure alignment with legal requirements.

FINDING 13: COUNCIL OVERSIGHT & CONTROL OF TOWN FINANCES

Condition/Context: The Town Council did not have adequate oversight, monitoring, and internal control mechanisms in place to fully scrutinize Town transactions, financial reports, and records in sufficient detail to be able to detect unauthorized, unsupported, or inappropriate transactions.

- There are key financial and management reports in the Quickbooks accounting system that are not used by the Town.
- The Town finances and fiscal activities did not have evidence that the Council discusses in sufficient detail for the Council to be able to perform their required governance duties: The Council Meeting Packages available from 2019-2022 revealed that fiscal management discussion has been brief, did not occur, or was not fully documented. Further, the prior Council President supplied the profit and loss report to Council members immediately before the meeting, providing insufficient time to review and/or question.
- The bank reconciliations have not been subject to review and approved by person(s) who can verify a complete and accurate reconciliation occurred. The Town is not reconciling bank statements to the general ledger, underlying accounting records to a zero-dollar difference, evidenced by differences found during 2019-2022 cash receipt testing.
- There was no evidence available that the Town was completing and documenting all accounting system reconciliation(s) (subsidiary ledgers to general ledger) monthly, quarterly, or annually during 2019-2022.

Cause: The absence of internal controls and limited financial expertise in financial matters among Town Council members hinders effective oversight. The turnover of Council members has resulted in the lack of continuity in financial oversight practices.

Effect: Without proper oversight, there is an increased risk of operational challenges and financial mismanagement, leading to inefficiencies and potential misallocation of funds and greater susceptibility to fraud. Inadequate monitoring of expenditures and revenue streams may lead to deficits for the Town. A lack of financial transparency and oversight can erode public trust in the Town's ability to manage finances responsibly.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.; GAAP; The Government Finance Officers Association's (GFOA) guidance on Financial Management.

RECOMMENDATION 13:

We recommend the Town Council work with the Town Council Treasurer to strengthen the oversight of financial activities of the Town. This control should include enhancing financial oversight protocols which would include setting up and implementing a robust system of checks and balances, clearly defining roles and responsibilities for financial oversight among the Town Council, developing and implementing a comprehensive financial reporting package for Council meetings, involving the full Council in a transparent and robust budgeting process, and enhancing the Council understanding and control over financial matters. Further, training and resources should be provided to Council members about fiscal management and oversight topics, ensuring the Council will have the necessary skills and knowledge to effectively manage the financial activities of the Town.

FINDING 14: COUNCIL GOVERNANCE RESPONSIBILITIES

Condition/Context: A review of the Town Council governance, through the documented meeting minutes (27 meeting minutes available during 2019-2022), found a lack of substantial discussions on critical areas including budgeting, ethics, conflict of interest, code of conduct, fraud, risk management, and internal controls. These subjects, central to the Council's responsibilities, received either minimal discussion or were omitted in the documenting of the meeting records. Further, the recurring agenda items, had limited discussions or the meeting minutes did not accurately document the discussions, hampering the Council's ability to make well-informed decisions on pertinent matters or to have an historically correct record of those discussions.

Cause: The Town has lacked the necessary ability or experience to set up effective governance, risk management/assessment and internal control structures and has taken a reactive approach to governance, addressing issues as they arise.

Effect: The lack of a risk assessment process leaves the Town exposed to unmanaged potential risks. The lack of a structured process for setting up or updating internal controls results in potential inefficiencies, weak existing controls, inadequate resource use, issues with accountability, risk of errors, and mismanagement all of which affects the reputation of the Town.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014; The Government Finance Officers Association's (GFOA) guidance on Risk Assessment and Ethics.

RECOMMENDATION 14:

1. We recommend the Town Council revise the agenda planning process and create a master fiscal year calendar to help prioritize key areas for discussions and review. The structured agenda should allow sufficient time for discussion of key topics and encourage Council members to take part in more substantial discussions. The Council membership should become more involved in fiscal management and governance of the Town.
2. We recommend the Town Council update the Town Charter and address, via Town policy, key governance topics including risk management, internal controls, financial activities, budgets, fraud, ethics, code of conduct, and conflict of interest.
3. We recommend the Town Council utilize either a risk register and internal control register or a risk/control matrix to manage internal controls. These documents should be incorporated in conjunction with written policies and procedures.
4. We recommend the Town Council incorporate regular risk management and internal control discussions in Council meeting agendas.

FINDING 15: PERSONNEL FILES

Condition/Context: It's unclear whether the Town adhered to all relevant federal and state requirements in hiring Town employees. Deficiencies were noted in employee personnel files, and the Town has not established clear requirements for the information to be included in these files, nor for the safeguarding and control of personal and confidential information (such as copies of social security cards and driver's licenses). Two former Council members' employee personnel files were missing, and other existing employee personnel files had minimal or inconsistent documentation regarding new hire and employment eligibility, including I-9 and W-4 withholding forms, job offer details (such as title, date of hire, and compensation amount), and documentation of compensation approval. It remains uncertain whether two more former Council members' files were generated post-termination, as their files only contained a resignation letter, a FOIA petition, and a candidate filing form. Note: The Town Council delegated the review and update of personnel files to a vendor they hired during the audit fieldwork.

Cause: The Town Council had not set up adequate compliance, security, and internal control processes over the Human Resources function. The Town did not have standardized policy and procedures (and checklists) for keeping personnel files including an employee personnel file checklist listing a standard list of required documentation and processes. Records provide little assurance that new hires meet technical and compliance qualifications.

Effect: Incomplete or missing personnel files or failure to perform compliance verification processes can result in non-compliance with labor laws and regulations and inadequate understanding of employment laws may expose the Town to legal risks (whether compliance violation or employment lawsuit) and reputational risk if an employee's personal information is compromised.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 15:

We recommend the Treasurer continue efforts to clarify and organize employee personnel files. Furthermore, we recommend that the Town Council establish a comprehensive human resource policy and procedure outlining criteria, protocols, and guidance in this area. This policy should cover the security of sensitive employee information and ensure compliance with hiring requirements mandated by state and federal laws. We propose implementing a standardized Employee Personnel File Checklist to ensure consistent documentation and compliance with federal and state laws as well as the Town Charter. Additionally, we suggest that the Town Council assign clear accountability and delineate roles and responsibilities to relevant Council member employees for overseeing compliance and documentation standards for employee personnel files. This includes ensuring the protection and security of sensitive data in the absence of a dedicated Town Human Resources Manager or employee.

FINDING 16: FEE RE-EVALUATION REVIEWS BY TOWN COUNCIL

Condition/Context: We found the Town had an unexplained impact fee reduction change from \$2400.00 to \$500.00 without sufficient documentation to support the change. The review of fee processes and underlying controls identified a deficiency in the Town's fee assessment mechanism and supporting documentation. This deficiency includes a lack of regular reevaluation of fees by the Town Council based on the resource use costs associated with each fee, as well as a lack of historical documentation on fee changes accompanied by analysis and justification. Additionally, the Council's infrequent reviews further compound the lack of transparency and accountability in fee adjustments. The available 2019-022 meeting minutes included only one monthly meeting which recorded a Council decision on fees (the current fee schedule approved with no changes for the next year). However, there was no mention of any analysis or review by the Council. The Town keeps a fee schedule listing their fees, however, there is no other historical documentation or file records, such as a fee documentation file explaining fee changes, including fee reductions, with justification documentation. Note: During the audit, a process began to compare Town fees to other municipalities in Delaware.

Cause: The Town has prioritized immediate concerns and operations over a systematic review of fees and lacks a strategic plan for future goals, such as a comprehensive municipal fee review. Additionally, there's a lack of data on cost structures and service demands, hindering the ability to conduct an accurate and informed fee reevaluation.

Effect: The Town can experience revenue imbalances and financial instability because of a failure to adjust fees in response to changing economic conditions, affecting the Town's ability to fund, sustain, and improve municipal services. Insufficient revenue may also lead to deferred maintenance of the Town's infrastructure and facilities. Further, certain segments of the Town population or businesses might bear an inequitable burden if fees are not adjusted to reflect the changes in the cost-of-service delivery.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 16:

We recommend the Town Council takes the following actions:

1. Develop and implement a structured process for fee assessment based on resources used, ensuring transparency and clear documentation of the evaluation criteria and method to be used. The Town should gather necessary data and then conduct periodic reviews of all fee structures to align with actual resources used for services, ensuring all fee adjustments are well-founded and supported by documented assessments. Further, the Town should require detailed documentation and justifications for any fee reductions, outlining specific reasons behind each adjustment to ensure accountability and clarity in decision-making.
2. The Town Council, as part of oversight and approvals, should institute a regular review schedule for the Town Council to scrutinize and approve fee adjustments.
3. The Town Council should encourage public engagement by inviting public feedback on proposed fee adjustments.

FINDING 17: ASSET RECORDS AND INVENTORY, FIXED AND OTHERWISE

Condition/Context: The Town does not keep an asset inventory of fixed and pilferable assets and does not tag assets with a Town of Ellendale identifier, and does not perform an annual asset inventory. The Town lacks a systematic process for creating, updating, and maintaining an inventory of its fixed and other assets, including land, buildings, vehicles, maintenance equipment, and Information Technology (IT) equipment. Additionally, it operates without a written asset inventory or capitalization policy and procedures. The Town does not have a process to review and update insurance coverage based on changes in assets, making sure to add and remove inventories as events occur. Further, because an asset inventory was not in place, annual physical inventories have not occurred to check that assets have not gone missing.

Cause: The Town has historically run without formal asset inventory practices and internal controls over asset management.

Effect: The absence of accountability for valuable assets makes it difficult to monitor asset condition, location, and use. Furthermore, without a comprehensive asset inventory, there are risks of asset mismanagement, resource underuse or overuse, and potential asset losses. This situation may lead to challenges in accurately reporting the Town's assets in financial statements.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.; GAAP; U.S. Government Accountability; The Government Finance Officers Association's (GFOA) guidance.

RECOMMENDATION 17:

We recommend the Town Council takes the following:

1. Immediately start the process of creating an asset inventory, to include both fixed and pilferable assets and tag the assets with a Town identifier. Perform and document an annual physical inventory going forward.
2. Assign accountability and responsibility to a Town Council member for coordinating and managing the asset inventory process.
3. Develop a structured process for documenting each asset, including detailed descriptions, acquisition costs, current conditions, locations, and other relevant information using some type of asset tracking system, preferably using technology.
4. Conduct periodic reconciliations of the asset inventory to verify accuracy and address discrepancies promptly.
5. Provide updates on the asset inventory to Town Council, including updates on status of inventory, reconciliations, problems, and other pertinent information.
6. Implement a control process to update insurance coverage as asset changes occur.

FINDING 18: WRITTEN CONTINUITY OF OPERATIONS PLAN (COOP)

Condition/Context: The Town lacks a written Continuity of Operations Plan (COOP) to provide mitigation and planning strategies for maintaining Town services under various unplanned disruption scenarios. While the Town has recently focused on a Safety Emergency Alternative Plan, a comprehensive COOP program is still absent.

Cause: The Town is busy focusing on day-to-day operations and immediate issues, neglecting long-term planning required for continuity.

Effect: The lack of a plan can lead to disorganization and delays in response during unplanned disruptions, hindering essential services and delaying recovery efforts.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014; Federal Emergency Management Agency (FEMA).

RECOMMENDATION 18:

We recommend for the Town to develop a comprehensive Continuity of Operations Plan (COOP) to ensure resilience and the continuity of essential services in the face of unexpected disruptions. This plan should outline mitigation strategies and procedures to be implemented across various scenarios. Additionally, it should include provisions for resource allocation, communication protocols, and personnel responsibilities. Regular testing and updating of the plan are crucial to ensure its effectiveness in real-world situations.

FINDING 19: FORMALIZED TRANSITION PLAN FOR COUNCIL CHANGES

Condition/Context: The Town lacks a formal Town Council member transition plan and control measures to manage risks, ensure a smooth transition, maintain operational stability, provide mentorship opportunities, and sustain governance effectiveness.

Cause: The Town has not historically used formal transition plans during Council member changes as the process has occurred informally or on an ad-hoc basis and there may have been a sense of complacency without consideration of future growth. Council members may also assume that the transition will occur naturally without much disruption instead of having clear guidelines and structures. Further, the Council members multiple responsibilities have been a barrier to dedicating time to this function. Member time has been consumed by various transition-related challenges and day-to-day activities, resulting in the loss of historical knowledge from previous leadership.

Effect: Significant changes to Town Council leadership, as observed in 2023, often reveal apparent risks and inefficiencies within the system. The Town Council has an incomplete knowledge transfer from outgoing to incoming Council members, leading to a loss of institutional knowledge, an increased learning curve, and inconsistencies in the Town’s processes. Due to a lack of clarity and structure in the governance transition process, disruptions in governance and operational management ensued, leading to decreased efficiency and delays in the ability to contribute effectively.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 19:

We recommend the Town Council take action to better manage leadership changes, enhance governance continuity, and ensure effective transitions when Council members change or resign:

1. Educate Council members on the importance of transition plans and seek the expertise as needed to ensure alignment with legal and regulatory requirements.
2. Set up a formal process or framework for developing, implementing, and supporting a Council member transition plan.
3. Set up a regular review and update cycle for the Council member transition plan to ensure it remains relevant and responsive to changing circumstances.

FINDING 20: WRITTEN JOB DESCRIPTIONS TOWN COUNCIL MEMBERS

Condition/Context: The Town Charter lacks comprehensive information and written job descriptions for outlining the roles and responsibilities of key positions of the 5-member Town Council.

Charter Lacks Clarity	The Charter supplies limited information about specific duties and expectations resulting in the need for each Town Council to define these positions.
Inconsistent Role Interpretation	Differing interpretations of these roles have resulted in inconsistencies in their fulfillment, leading to friction within the organization.
Accountability	The lack of clearly defined roles and responsibilities makes it challenging to hold Council members accountable for their actions, decisions, and workload. With limited town employees, three Council members are involved in day-to-day town operations, further complicating matters.

Cause: The Town Council has not undertaken the revision of the Town Charter or the development of written job descriptions to align with the evolving roles and responsibilities and faces increasing complexity stemming from the Town's ongoing growth and influx of residents.

Effect: Neglecting to address this gap may lead to mismanagement, strategic misalignment, inconsistent performance among Council members due to differing perceptions of their roles, inefficiencies resulting from confusion and difficulty coordinating duties, and potential legal and governance risks due to actions not aligning with legal or regulatory requirements.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014; The Town Charter.

RECOMMENDATION 20:

We recommend the following actions for the Town Council:

1. Review and update the Town Charter to either incorporate job descriptions or reference job descriptions approved by the Town Council. Establish a formal process within the Town Charter for approving and revising job descriptions to ensure changes are made with proper authority.
2. Develop comprehensive written job descriptions to clearly delineate the roles, responsibilities, and expectations for each member of the Town Council, reducing confusion and misunderstandings.
3. Enhance transparency by making the job descriptions and Town Charter readily accessible to the public, such as by adding this information to the Town website.

FINDING 21: WRITTEN JOB DESCRIPTIONS EMPLOYEES, VOLUNTEERS, VENDORS

Condition/Context: The Town lacks written job descriptions outlining roles and responsibilities for various stakeholders, including Town employees (such as the Town Clerk, Maintenance Person, and Police), volunteers (including the Tax Collector), and vendors (such as the CPA Firm Bookkeeper).

Cause: The Town's historical practices involved the passing down of roles and responsibilities without documentation, stemming from the small size of the Town and the perception that these roles and responsibilities were self-evident.

Effect: Failure to address this gap may lead to mismanagement, strategic misalignment, inconsistent performance, inefficiencies (due to confusion and difficulty coordinating duties), and potential legal risks (as actions may not comply with legal or regulatory requirements).

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 21:

We recommend the Town Council takes the following actions:

1. Develop comprehensive written job descriptions to clearly outline roles, responsibilities, and expectations for each current Town employee, volunteer, or vendor performing accounting or other functions, including clarification of reporting lines.
2. Require that all written job descriptions and any changes undergo approval by the Town Council.
3. Require a job description to be created and approved by the Town Council for all new positions.
4. Implement a periodic review and update of job descriptions to accommodate changes in positions resulting from the growth of the Town.

FINDING 22: EMPLOYEE/VOLUNTEER CRIMINAL BACKGROUND CHECKS

Condition/Context: The Town is not conducting criminal background checks or reviews on Council members, which is non-compliant with the mandate outlined in Section 3 of the Town Charter. This section specifies that no person shall be eligible to serve as a member of the Town Council if convicted of a crime or misdemeanor, except for traffic offenses. Additionally, Section 11 states that any Council member found guilty of a felony during their term of office shall be disqualified and their office deemed vacant. Further, the Town is not conducting criminal background check reviews on employees or volunteers.

Cause: The failure to conduct criminal background checks on employees and volunteers may stem from a lack of awareness or understanding of the legal requirements outlined in the Town Charter. Additionally, limited resources or processes for implementing background checks could have contributed to this oversight. Furthermore, the absence of documented interpretations or guidance on the relevant sections of the Town Charter from the Town Solicitor may have added to the confusion. Lastly, the Town's lack of a structured and standardized human resource function could have hindered the establishment of proper procedures for conducting background checks.

Effect: The Town's non-compliance with the Town Charter requirement to conduct background checks poses significant risks. Failure to screen employees compromises the safety of other Town employees, residents, and the community, particularly in roles involving public service or positions of trust. Moreover, the absence of background checks exposes the Town to legal and liability risks, such as negligent hiring claims, if an employee with a criminal history engages in unlawful activities while employed by the Town.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014; The Charter of Ellendale.

RECOMMENDATION 22:

- We recommend that the Town Council develops and implements standardized protocols for conducting criminal background checks for all Town Council members. Additionally, the Town can leverage key contacts within the State of Delaware who can assist with setting up this process effectively.
- We recommend that the Town consider conducting criminal background checks on employees or volunteers as a cost-effective way to prevent incidents, maintain trust, and safeguard the Town's reputation.

FINDING 23: WRITTEN LEGAL ADVICE & NO TRACKING MECHANISM

Condition/Context: The Town, despite employing a Town Solicitor for legal advice, lacks mechanisms to track, manage, and utilize this advice for future cost savings and to ensure the efficient allocation of financial resources.

Written Legal Advice Documentation	The Town lacks a formal requirement for legal advice to be documented in writing, resulting in advice being primarily communicated verbally. This verbal communication may be limited to the email of one or two Council members, leading to communication gaps between members. Alternatively, a version of the advice may be recorded in meeting minutes, although this may not fully capture the legal advice provided.
Central Legal Files	The Town does not keep a comprehensive file of all legal advice received by fiscal year and month or otherwise, making it impossible to track, reference, or verify provided legal guidance.
Duplicate Legal Costs	The Town has no way of knowing whether similar or reoccurring matters have incurred multiple or duplicate costs.
Legal Report at Town Council	Although there was an agenda item for a legal report, there were no written legal reports within the available Council meeting minute packages.

Cause: The Town has followed historical practices of informal or verbal legal communications and had never developed a mechanism to track and preserve legal advice and opinions.

Effect: Failure to establish structured processes/practices for legal advice may lead to ongoing legal risks, misunderstandings, and potential challenges in accountability for the Town. Additionally, the Town may incur unnecessary expenses by paying for similar legal services multiple times, resulting in a lack of cost efficiency in legal expenditures.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 23:

We recommend the Town Council takes the following actions:

1. The Town should set up a policy and requires all legal advice be given by the Town Solicitor in writing. This will ensure a record of legal guidance for reference and accountability.
2. The Town should create a centralized paper and/or digital repository for all legal advice received. This central file should be accessible and organized for reference and historical tracking.
3. The Town should appoint at least one Council member to coordinate legal matters and act as single point of contact to help streamline communications and provide accountability.
4. The Town should establish clear guidelines for acquiring legal advice, outlining the circumstances and methods for seeking legal services to optimize cost savings (such as bulk legal services or retainer agreements).

FINDING 24: ONBOARDING AND OUTBOARDING EMPLOYEES & VOLUNTEERS

Condition/Context: The Town lacks a consistent and standardized onboarding and offboarding process, as well as clear oversight and accountability for HR functions. There is no guidance or checklist to ensure these activities are subject to monitoring and consistent application of human resources procedures for employees, and potentially for volunteers as well. Additionally, the Council lacks a structured Town Council Member Onboarding Program to welcome and acclimate newly elected Council members, providing training and orientations to support their success. Furthermore, the Town does not utilize any standardized personnel action form for initiating new employee hires or managing separations, whether voluntary (end of Council Member term) or involuntary.

Example of Activities: These activities range from items such as physical devices/assets, keys for physical access to Town facilities or debit-cards, ID badges or uniforms, IT/equipment assets (such as computers or portable radios), user accounts (including Town computer accounts, Town email accounts and external accounts such as with the banking relationship, setup), to the distribution of final payroll payout.

Cause: The Town Council has not established clear compliance, security, and internal control processes over the Human Resources function. Additionally, the Town lacks a dedicated HR professional and has not implemented written human resources policy and procedures.

Effect: New Council members may experience feelings of disconnection or lack of information regarding their roles and responsibilities, potentially leading to reduced engagement, longer learning curves, and slower integration, ultimately affecting the overall effectiveness of Town governance. The absence of structured onboarding processes may result in miscommunications or misunderstandings about expectations, processes, and policies. Furthermore, the lack of HR knowledge increases the risk of non-compliance with evolving employment laws and inconsistencies in HR practices, potentially contributing to higher turnover rates due to workplace dissatisfaction or issues. Failure to retrieve Town assets from departing employees can result in loss of assets, while retaining keys or other physical items or access to data poses a security risk.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 24:

1. Develop and implement a standard personnel action form and HR policy and procedures, including a standardized onboarding/outboarding checklist to facilitate HR and payroll processing activities, particularly given the Town's employee turnover.
2. Review and implement necessary edits/changes to the personnel manual specific to Ellendale, requiring written employee acknowledgment upon implementation.
3. Establish a formal onboarding program as a standard practice for all Council members. This comprehensive, documented program aims to improve governance, streamline decision-making, aid in the smooth integration of new members, reduce the learning curve, and enhance Council operations. Covering key topics such as roles, legal obligations, compliance, governance processes, grants management, and Town priorities, the program should be regularly evaluated and enhanced to meet evolving needs.

FINDING 25: REMEDIATION OF PRIOR AUDIT RECOMMENDATIONS

Condition/Context: The Town has not yet addressed or remediated all prior audit recommendations from the 2018 audit dated December 20, 2019. This includes areas such as policies (e.g., Capitalization Policy), accounting and budgeting practices, investments, approvals, and banking procedures (e.g., reconciliation of bank statement cleared checks).

Cause: The Town had not designated specific employees responsible and accountable for implementing the recommendations, nor had it included them on the monthly Town Council agenda or established a mechanism for tracking and reporting progress.

Effect: Not addressing prior audit recommendations can have significant and wide-ranging consequences. This includes continued degradation of the internal control system, operational inefficiencies, increased risk of fraud, waste, or abuse, missed opportunities for improvement and cost savings, leading to resource wastage, delays, or increased costs. Additionally, there is an increased risk of fines and penalties due to non-compliance with legal and regulatory requirements.

Criteria: Standards for Internal Control in the Federal Government (Green Book), U.S. Government Accountability Office September 2014.

RECOMMENDATION 25:

We recommend the following actions for the Town Council:

1. Establish a reporting and monitoring process:
 - a. Include the audit recommendation status as a recurring agenda item in Town Council Meetings until remediated, providing regular updates.
 - b. Develop a mechanism for tracking and reporting progress on recommendation implementation.
 - c. Consider using Excel as a tool for tracking.
2. Assign clear responsibility and accountability: Assign each audit recommendation to designated Town Council members and employees, ensuring clear responsibility and accountability.
3. Prioritize recommendations: Prioritize recommendations based on their impact and feasibility to ensure efficient allocation of resources.

MANAGEMENT RESPONSES



Town of Ellendale

March 07, 2024

Delaware Office of Auditor of Accounts
Melissa Schenck, CFE, CICA
414 Federal Street – Townsend Building
Dover, Delaware 19901

Reference: Town of Ellendale – Audit

Dear Ms. Schenck,

I would like to first take this opportunity to thank you, and your staff, for assisting us with our financial challenges. The members of Town Council have reviewed your recommendations (at the March 07, 2024 meeting of Town Council) and have made, or are working towards making, changes to address the concerns outlined in your “Reportable Findings”. Specifically,

- Payroll: The Town has outsourced payroll processing to The Godwin Firm, P.A. We have also updated the payroll process to include Direct Deposit for employees.
- Personnel Files: All personnel files have been updated to include the required forms, contact information and passwords associated with Town computers. The files are maintained in a locked file, with restricted access.
- Criminal Background Checks: All candidates and employees for the Town of Ellendale must successfully pass a background check and complete an Ethics Form. The Charter will be amended to reflect this requirement.
- Employee Bonding: Employee bonding has been updated to include current council members, Town Treasurer and Town Clerk. Prior council members or employees have been removed.
- Town Website: The Town continues to update the website, as well as expand the information available on the site. This includes all agendas, town notices, Town Charter, Town Code and related Forms.
- Petty Cash: Petty cash has been eliminated and has been replaced with a Debit Card that requires sign-out and receipt documentation for each purchase.
- Records Management and Ongoing Recordkeeping: The Town has expanded electronic records management for Building Permits and License(s). Minutes for public meetings are stored in respective electronic files (i.e. Council Minutes, Planning Commission Minutes, Board of Adjustment Minutes, Agendas, etc.). Additional Policy and Procedures have been implemented for the storage and public archive requirements for documents.
- Backups: The Town has been working with a computer technician for the electronic storage and retention of town documents.

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Email: Townclerk@ellendale.delaware.gov

- Banking: Final steps are in progress to relocate all banking to Community Bank. The Town recently received an electronic check deposit machine, as well as a Credit Card availability. All signing authority has been updated and completed. Two signatures are required for checks, and in the event a second signer is not available, full disclosure is given at the next Council meeting. Council also requires a monthly report from the Treasurer, to be presented at each months Council meeting.
- Employee Succession Planning and Council Transitions: All job descriptions, duties and responsibilities, as well as a transition plan will be available in written and electronic form.
- Policy and Procedures: All policies and procedures are being reviewed, and will be available both in written and electronic form.
- Cash Receipts, Cash Disbursements and Expenditures: Cash receipts are submitted with the payroll information, and a separate check is issued by the accounting firm. Cash purchases are discouraged by using the debit card.
- Property Taxes/Capitation Taxes: Property tax balances are being reviewed and will be addressed, per the Charter, on a regular basis. Capitation taxes will be removed and the Charter amended accordingly.
- Asset Inventory: Currently in progress and will be updated to include all new purchases . Warranty information will be stored alphabetically.
- Town Strategic Plan and Town Budget: The Town is currently working with the Office of State Planning regarding a Strategic Plan. The budget will be completed, for Council review, by June 01, 2024. All future budget(s) will be prepared using the Charter guidelines.
- Town Solicitor: All legal decisions for the Town of Ellendale will now be in writing and filed in writing and electronically.
- Town Charter Compliance and Update: Council is currently reviewing the Charter and will make suggestions for changes and updates.
- Town Council Oversight and Monitoring Responsibilities: The current Council has taken an active role in the day-to-day management and is taking steps to ensure Policy and Procedures are being followed.

The Council is also working with other agencies and town representatives to ensure that Ellendale prepares for future growth and responsible management of daily services through internal controls and written policy(s). We are working to make an effective Charter, that will provide good government, and preserve the safety, welfare and good order of the Town.

Sincerely,



Thomas Panas
President, Town Council

APPENDIX 1 - OBJECTIVE, SCOPE, APPROACH, METHODOLOGY & CRITERIA**Objectives and Scope:**

The objective of the performance audit was to assess whether the system of internal controls is adequate, effective, and appropriate for the achievement of the Town Council objectives in the categories of compliance, fiscal management, and governance, for the Town of Ellendale (the entity). Our scope focused primarily on specific processes and activities named below:

- Town Council Governance and Management
- Town Charter Compliance (Limited to 5 Compliance Elements)
- Key Financial Processes/Programs
 - Real Estate Property and Capitation Tax Program
 - Cash Receipts & Handling
 - Cash Disbursement & Expenditures (including Payroll)

Our audit scope period was January 1, 2019 through December 31, 2022, and includes other dates prior to or after as considered relevant. All information, data, and documentation records were physically located in the Town of Ellendale, a municipality in Sussex County, Delaware.

Our performance audit was limited to the above objectives and scope and certain issues were outside of this engagement including state and federal grants and other revenue programs (i.e., realty transfer tax etc.).

During the audit, there were some information limitations due to the inability to locate certain records, including some Town Council meeting minutes packages and cash receipt books within our scope period. This occurred during the transition between the 2022 Council members and the 2023 Council members.

Audit Approach: Our approach consisted of the following phases:

Understanding and Documentation of the Process, Risks, and Control Design

This phase consisted primarily of inquiry, observation, and walkthroughs to obtain an understanding the current operating processes, risks, and control design structures as they relate to our objective(s) and scope. The following was performed as part of this phase:

- Conducted interviews and walkthrough with key personnel of the processes and key controls to obtain an understanding of the function/process, perform a risk assessment, and assess the design of the process and key controls.
- Obtained financial information, applicable federal and state laws and regulations and the Town Charter, and other available documentation deemed necessary related to the critical processes.

Evaluation of the Process, Control Design/Implementation, and Testing of Operating Effectiveness

The objective of this phase was to evaluate the design of key processes and control implementation, as well as to test compliance and internal control effectiveness based on our understanding obtained during the initial phase. We utilized sampling and other auditing techniques to achieve the audit objective and scope outlined above. Procedures included, but were not limited to:

- Assessing the design of critical processes and controls.
- Evaluating the adequacy of relevant policies, procedures, and guidelines for audited process areas, and reviewing adherence to these policies and procedures in the design and control structure (limited to verbal communication of policy and procedure requirements).

- Evaluating the sufficiency of records and documentation to establish an audit trail and historical record.
- Reviewing source documents related to audit objectives and scope.
- Assessing the organizational structure, with a particular focus on conflicts of interest and the segregation of essential functions. Evaluating the sufficiency and effectiveness of segregation of duties related to audited process areas.
- Performing data analytics and analysis, where feasible, to evaluate operational performance and assist in designing the testing strategy.

Refer to the Methodology section below for detailed procedure information.

Reporting

At the conclusion of this performance audit, we summarized our findings into this report and observations (non-reportable findings) are reported in a Management Letter. We have reviewed the results with the Town Council and have incorporated the management responses into this report.

Methodology

AOA performed various procedures to accomplish the objectives of the audit. Our testing was conducted using sampling and other auditing techniques and methodologies. The methodologies included but were not limited to:

- Interviewed the following individuals/positions:
 - Town Clerk
 - Town Council President
 - Town Council Vice President
 - Town Council Treasurer
 - “Volunteer” Tax Collector
 - Godwin CPA Firm Contractual Bookkeeper
 - Sussex County Assessment Manager
- Performed site visits at the Town Office.
- Reviewed and analyzed the following preliminary information:
 - A list and description of the pertinent information systems used by the Town of Ellendale for accounting and financial reporting (QuickBooks).
 - The last prior financial statement audit of the Town of Ellendale dated December 20, 2019, conducted by Sombar & Company, CPA’s, P.A, and any corrective action taken by the Town Council.
 - The Town of Ellendale’s methods for storing hard copy documents and other historic records as well as any digital records.
 - The Town of Ellendale’s Employee Handbook (approved by Council 2022, not implemented).
 - The Town of Ellendale’s website and information provided to the Public.
 - Town of Ellendale Tax Rolls from Sussex County for 2019-2022.
- Performed data analytics and analysis using Excel, and Power BI, where possible, to evaluate the operational and financial performance and review for trends and outliers which include but are not limited to the following examples:
 - Conducted a Vertical and Horizontal Analysis and Trend Analysis of Town’s revenues and expenditures for 2019-2022.
 - Compared the County Parcel information to the Town’s Parcel information for possible mismatches of parcel numbers.
 - Recalculated Property Taxes.
 - Analyzed Gaps in Billing Invoices for Property and Capitation Taxes.

- Performed sampling and testing against criteria for the following areas:
 - Town Charter Compliance: Tested compliance with the Town Charter selecting a sample of five charter compliance requirements.
 - Property and Capitation Taxes: A stratified/then random sample of seventy-one (71) or 5.9% percent out of 1,203 total population property tax assessments per the Sussex County Tax Roll for a four-year sample period (2019, 2020, 2021, and 2022). The sampling performed was to select a representative sample of the Town properties for testing. This included a random sample by type of property inclusive of the sixty (60) residential accounts and 10% each of the agricultural (2), commercial (5), and tax-exempt accounts (4) using Excel. The sample was chosen following the AICPA sampling guidance for populations under 250, which require selection of 10% or a total of sixty (60). The test attributes performed included the following:
 - The tax assessment rate levy per dollar assessment and capitation tax per 18 year or older resident used in billing calculation agreed to the Town Charter and the Town Council approval for changes.
 - The tax billing invoice annual mailing by the Town occurred based on the timeline parameters defined in the Town Charter and that the required due dates for what property and capitation taxes for collections by the Town.
 - The tax billing invoices were data input/setup with correct and complete property assessment amounts, quantity, and tax rate as required by the QuickBooks accounting system to accurately calculate the tax assessment billed due amount, invoice date, the tax bill due date, property parcel number.
 - The customer history in QuickBooks accounting system and Town records reflects the tax bill assessment, the collection, posting, and recording of the tax receipt, and the assessment of applicable late fees and penalties when tax payments were delinquent (collection mechanisms occur) based on the Town Charter requirements.
 - The customer history reflects the proper tax exemption based on the Town Charter and Town exemption documentation.
 - Petty Cash: Performed a cash count of the stated \$125.00 petty cash box under observance of Town Vice President to reconcile receipts and cash in the box at the first site visit.
 - Cash Disbursements and Expenditures: A non-statistical judgmental sample of sixty cash disbursement and expenditure transaction(s), including transactions over \$10K, out of a population of 1390 was selected. These transactions were tested for legitimate business purpose, proper approval/authorization, supporting documentation, and Town Charter procurement requirements. The sample was chosen following the AICPA sampling guidance and based on the understanding obtained on the types of expenditures the Town had re-occurring versus non-reoccurring.
 - Bank Account Administration: Obtained bank statements and the associated cleared checks for all accounts with the corresponding signature cards to confirm updates occurred when Town Council members transition.
 - General Fund Bank Statement and Cleared Checks: Reviewed the General Fund bank account for audit period for fraud red flags and verified cleared checks processed through the General Fund bank account follow dual signature policy from the applicable authorized signers.
 - Cash Receipts and Handling: Judgmentally selected forty cash receipt samples from the three available Cash Receipt books (Miscellaneous, Building Permits, and Business Licenses) for the audit scope period. The Miscellaneous receipt books prior to July 2020 could not be found for testing. Performed testing of the following:
 - To trace/verify the cash receipt activity:
 - that the date of receipt per manual paper receipt book,

- the date of the deposit transaction reflected on the M&T deposit slip and the bank statement(s),
- the date posted as a cash into the QuickBooks accounting system,
- to confirm the proper existence, occurrence, accuracy, cutoff, and classification in the financial statements.
- To confirm all cash (cash and check) transactions have been deposited within the correct M&T bank account of the Town for accuracy, completeness, occurrence, and timeliness.
- Payroll: Performed payroll testing and selected a judgmental sample of thirty-six payrolls including seven employees. Testing included a review of QuickBooks information/reports and testing of the following attributes:
 - Name And Supporting Identification
 - Job Title
 - Hiring Date
 - Payroll Frequency (Annual or Bi-Weekly)
 - Paycheck Number
 - Supporting Compensation Records for Salary or Hourly Pay (Payroll Processing File)
 - Timesheets Supporting Hours Worked & Related Employee and Council Member Approvals
 - Gross Pay Re-Calculation
 - Payroll Payee & Check Amount
 - Check Disbursement Dual Authorized Signature
 - Payroll Earning Type
 - Payroll Tax Withholding Occurrence
 - Federal Withholding
 - Social Security Withholding
 - Medicare Withholding
 - State (Delaware) Withholding
 - Pay Date; Pay Cycle End Date
 - Payroll Package Review
 - Payroll Disbursement Bank Account
- Human Resources Personnel Files: Performed testing of Town employee's personnel files for required documentation to support hiring and compensating for seven employees.
- Town Council Governance, Oversight, Monitoring and Meeting Minutes Packages: Tested and assessed Council meeting management using the available Town Council meeting packages including any ordinance and resolutions for the audit scope period and various meeting management literature. This included review of governance structure and ethics, meeting frequency and type (use of public input, executive or working sessions), historical record (minutes and materials completeness), management of annual calendar and agenda items, agenda coverage and depth, and oversight/monitoring of the Town operations for key areas of responsibility, including fiscal responsibilities.
- Recordkeeping: Performed testing of recordkeeping as part of individual substantive testing sections within the audit.
- Town Accounting system: Performed data reliability tests on QuickBooks data as needed to support our audit objectives.

Whenever sampling was used, auditors applied a non-statistical approach. Therefore, test results could not be projected to the population. This approach was determined to adequately support the audit conclusions.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance

weaknesses or lack of compliance. This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in internal control significant to our audit objectives. As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards.

During this engagement, AOA also maintained awareness for the potential existence of fraud, waste, and abuse.

Criteria: We reviewed and/or used the following criteria to conduct the performance audit:

- The U.S. Government Accountability Office’s “Standards for Internal Controls in the Federal Government” (Green Book) and “Assessing Data Reliability”.
- The Committee of Sponsoring Organizations of the Treadway Commission (COSO) “Internal Control- Integrated Framework”.
- Municipal Resource and Service Center (MSRC.org) Council/Commission Meeting Resource Page
- Institute for Local Government (ca-ilg.org) ILG Effective Meetings, Budgeting & Financial Management, Ethics and Transparency, Inclusive Public Engagement, and Leadership & Governance Resource Pages.
- Missouri Municipal League (mocities.com) Conduct of Council Meetings (2009).
- State of Delaware DOA Budget and Accounting Manual (BAM).
- Federal/State Law related to Payroll and Tax Withholdings
- Delaware Constitution
- Titles of Delaware state law (Delaware Code)
 - Delaware Code – Title 22 – Municipalities
 - Delaware Code – Title 09 – Counties
- Sussex County Code related to Property Taxes
- The Town of Ellendale Town Charter
- The Town of Ellendale Town Council Approved Resolutions & Ordinances (available)
- The Government Finance Officers Association’s: Asset Best Practices
- The Government Finance Officers Association’s: Guidance on Developing Strategic Plans
- Checkpoint RIA Audits of Local Governments
- FEMA.gov & State of Delaware COOP Requirements
- Regulation CC, Check Endorsement Standards
- Uniform Commercial Code on Negotiable Instruments
- Auditing Human Resources- The IIA Research Foundation Handbook Series, Kelli W. Vito
- The Town of Ellendale’s verbally communicated policy (and procedural) requirements for processes and key controls.