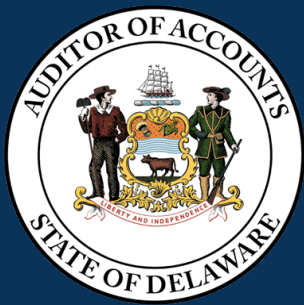


# TOWN OF SMYRNA

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PERFORMANCE AUDIT  
CALENDAR YEARS 2022 AND 2023



# TOWN OF SMYRNA

## REPORT SUMMARY CALENDAR YEARS 2022 AND 2023

### BACKGROUND

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

The purpose of our Audit was to evaluate the efficiency and effectiveness of Town operations during calendar years 2022 to 2023. The audit objectives were to assess whether the system of internal controls was adequate and appropriate for the Town and Council to achieve their objectives regarding compliance, oversight, fiscal management, transparency, and governance. Audit testing was designed to evaluate key financial processes, internal controls, and compliance with applicable laws, regulations, and the Town Charter (the “Charter”).

The State Auditor is authorized under 29 Del. C., §2906 to conduct audits of all the financial transactions of all state agencies.

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### KEY INFORMATION AND FINDINGS

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The Town operates under a Council–Manager form of government. Under this form, the Council is responsible for legislative functions such as establishing policy, passing ordinances, and developing a vision for the Town. The Town Manager oversees each department, manages the Town’s staff, and administers funds.

The Town delivers a comprehensive range of services as required by its Charter and Council-adopted code. These services include public safety (police, fire, and emergency management), infrastructure maintenance (streets and sanitation), community amenities (recreation and public library), urban development (public improvements, planning, and zoning), safety regulations (inspections), utilities (electric power generation and distribution, water supply, and wastewater management), legislative operations, and general administration. The Town has approximately 157 full-time and part-time employees.



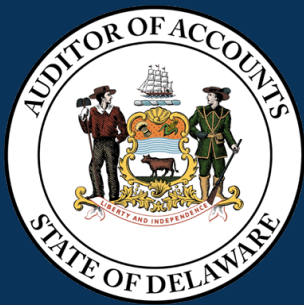
# TOWN OF SMYRNA

## REPORT SUMMARY CALENDAR YEARS 2022 AND 2023

### KEY INFORMATION AND FINDINGS CONT. ---

During the performance audit, the following areas of concern were noted:

- The Town currently utilizes two distinct computer programs as its main accounting systems for all fiscal activities. The Town is working with a technology company to transition its accounting records from the two systems to a singular software program. The original conversion date was set for September 1, 2022. The Town is currently running both systems in parallel.
- The Town has limited personnel to monitor financial oversight, which hinders the Town from completing its bank reconciliations in a timely manner. There are no clearly defined roles and responsibilities for the development of financial reports to be reviewed by Management or Council with respect to bank reconciliations.
- The Town does not have a formalized written process or procedure that outlines the roles and responsibilities to review, update, track, and approve projects or funding sources for capital projects American Rescue Plan Act (ARPA) funds. The Town was unable to provide documentation related to capital projects including the current status of the project, percentage of funds allocated from a funding source, or the amount of funds utilized and remaining from a funding source.
- The turnover of management and accounting staff has resulted in the lack of continuity in financial oversight practices.
- The Town did not have adequate oversight and monitoring in place to fully adhere to the Town's procurement policy.
- The Town does not have a formalized process or procedure for management to generate, review, and approve budget to actual comparisons.
- The Town did not have a comprehensive written policy and procedures manual to govern its operations and decision-making processes. There is no clear channel of communications between Council members and Town management.



# TOWN OF SMYRNA

## REPORT SUMMARY CALENDAR YEARS 2022 AND 2023

### KEY INFORMATION AND FINDINGS CONT. ---

The auditor's report underscores the need for corrective action in the Town's operations and financial governance. Auditors found deficiencies in policy & procedure management and deviations from established governance protocols that increase the risk that misstatement and fraudulent activity could potentially go undetected.

Since the April 2020 census, the Town's population has grown by 3.4%, leading to several challenges. These include the absence of a structured internal control framework supported by effective governance, adequate staffing, budget planning, and clearly documented policies and procedures. To manage this ongoing growth, the Town should establish robust internal controls that provide guidance, oversight, and governance. As the population continues to expand, the demand for services is expected to rise, along with the need for increased accountability. Proactively addressing these challenges will likely improve public perception, enhance service quality, and promote overall transparency.



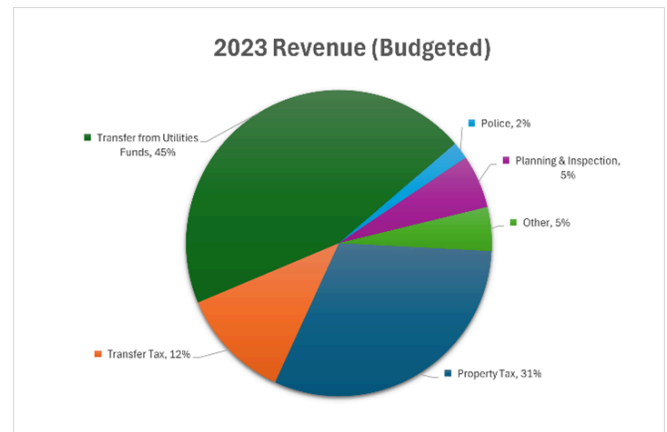
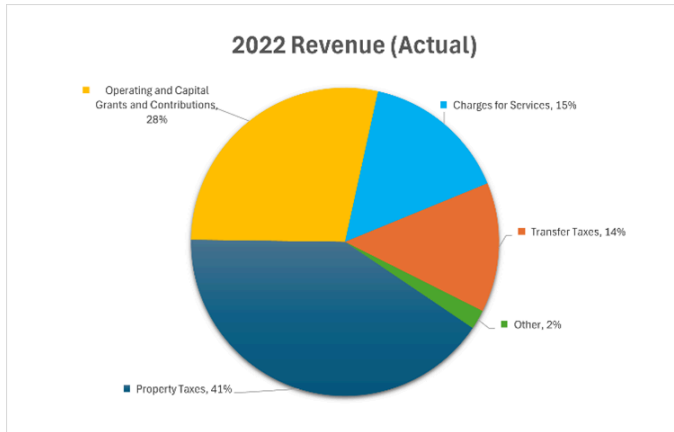


# TOWN OF SMYRNA

## REPORT SUMMARY CALENDAR YEARS 2022 AND 2023

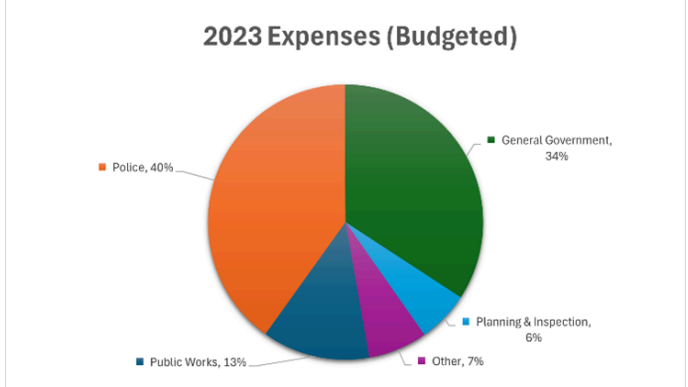
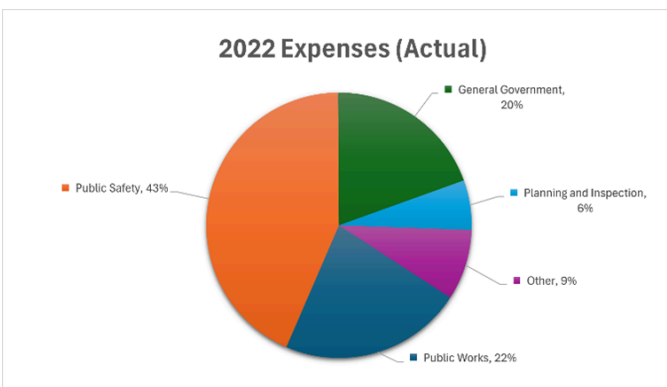
2022 Revenues (Actual)		
Category	Amount	%
Property Taxes	\$ 4,403,019	41%
Operating and Capital Grant	\$ 3,048,264	28%
Charges for Services	\$ 1,659,119	15%
Transfer Taxes	\$ 1,469,351	14%
Other	\$ 219,979	2%
<b>Total</b>	<b>\$ 10,799,732</b>	<b>100%</b>

2023 Revenues (Budgeted)		
Category	Amount	%
Property Tax	\$ 4,600,000	31%
Transfer Tax	\$ 1,750,000	12%
Transfer from Utilities Funds	\$ 6,684,065	45%
Police	\$ 269,474	2%
Planning & Inspection	\$ 835,500	6%
Other	\$ 688,000	5%
<b>Total</b>	<b>\$ 14,827,039</b>	<b>100%</b>



2022 Expenses (Actual)		
Category	Amount	%
Public Works	\$ 2,796,357	22%
Public Safety	\$ 5,435,425	43%
General Government	\$ 2,457,655	20%
Planning and Inspection	\$ 758,370	6%
Other	\$ 1,076,909	9%
<b>Total</b>	<b>\$ 12,524,716</b>	<b>100%</b>

2023 Expenses (Budgeted)		
Category	Amount	%
Public Works	\$ 1,943,211	13%
Police	\$ 6,136,375	40%
General Government	\$ 5,257,394	34%
Planning & Inspection	\$ 929,098	6%
Other	\$ 1,065,790	7%
<b>Total</b>	<b>\$ 15,331,868</b>	<b>100%</b>





# TOWN OF SMYRNA

## REPORT SUMMARY CALENDAR YEARS 2022 AND 2023

### KEY INFORMATION AND FINDINGS CONT.

#### TOWN OF SMYRNA ARPA PROGRAM FUND TRACKING

Subrecipient Name	Town Of Smyrna
Grant	ARPA SLFRF
ARPA Approved Budget	\$10,511,292.82
2021 Distribution Amount	\$3,188,811.46
2022 Distribution Amount	\$3,188,811.47
Total Amount Distributed (2021+2022)	\$6,377,622.93
Total ARPA Amount Spent	\$5,001,539.03
Total ARPA Amount Remaining	\$1,376,083.90
Reporting Period	01/01/2022 - 12/31/2023



# TOWN OF SMYRNA

## REPORT SUMMARY CALENDAR YEARS 2022 AND 2023

### KEY INFORMATION AND FINDINGS CONT.

#### Why Internal Controls and Documentation Matter:

The U.S. Treasury and federal regulations require local Governments to implement effective internal controls and maintain detailed documentation to ensure:

- Proper use of federal funds
- Prevention of fraud or misuse
- Readiness for audit or oversight
- Transparency to the public

*The Town received \$6.38 million in ARPA funds but lacks formal procedures and documentation to track their project use and status.*

NO FORMAL PROCESS FOR  
BUDGET - ACTUAL MONITORING  
(CURRENT STATE)



Identified Weakness

GAPS:  
NO ASSIGNED RESPONSIBILITIES  
NO SCHEDULED REVIEWS  
NO DOCUMENTED POLICY & PROCEDURE



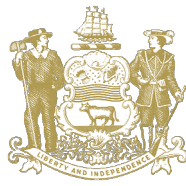
Recommended Improvements

FORMALIZED PROCESS  
WRITTEN PROCEDURES  
ASSIGNED RESPONSIBILITIES  
REGULAR COUNCIL REVIEWS  
(FUTURE STATE)

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**State of Delaware  
Office of Auditor of Accounts**

**Lydia E. York  
State Auditor**

## **INDEPENDENT AUDITOR'S REPORT**

Mayor Johnson and Town of Smyrna Council  
Town of Smyrna  
27 S. Market Street  
Smyrna, DE 19977

### **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 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 Smyrna 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.

Audit procedures are designed to assess efficiency, effectiveness and compliance however they do not provide absolute assurance in detecting all instances of fraud, waste or abuse. The audit findings are based on the information available and the scope of the review, and while efforts are made to identify irregularities, undetected instances may still exist.

### **Highlights and Conclusion**

The Town Council (the "Council") 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 the Town of Smyrna (the "Town") operations during calendar years 2022 to 2023.

Our performance audit will address the following objectives in accordance with 29 Del. C. §2906 of the Delaware Code, American Rescue Plan Act (ARPA) requirements and the Town charter:

- Verify the design and operational effectiveness of internal controls over financial activities, reporting, and governance, and evaluate the entity's fraud prevention measures.
- Assess the effectiveness of the entity's financial governance framework and daily financial operations, including oversight, decision-making, roles, policies, record-keeping, budgeting, compliance, and transparency.
- Examine compliance with ARPA funding terms, ensuring proper use, accounting, allocation, tracking, and reporting of funds
- Evaluate the accuracy, completeness, and timeliness of property tax calculations, collections, and reporting in financial statements.

The Town and Council are met with both challenges and opportunities. The recent growth of the Town presents opportunities for new residential and commercial real estate development which will increase tax revenue. The challenges include establishing an infrastructure capable of handling the influx of new residents and businesses, institutionalizing governance with adequate resources, and creating comprehensive written processes, 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. Doing so may enhance the public perception, improve service delivery, and promote overall transparency.

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



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

April 30, 2025

## **BACKGROUND**

### **Town of Smyrna and Town Charter**

The Town of Smyrna (“Town”) was first settled prior to the American Revolution on the southern bank of Duck Creek, near the fork of Green’s Branch. In central Delaware, two major thoroughfares formed what were known as Duck Creek Crossroads and which later came to be called the Four Corners of the Town. In 1806, the Delaware Assembly changed the name of the Town to Smyrna. The original boundaries were one-fourth of a mile in each direction, making the Town equivalent to one square mile, a size it maintained until 1960 when newly developing areas were annexed into the Town.

Smyrna’s historic small-Town atmosphere and its great pride in its quality of life and educational system make it highly desirable for families and homeowners. Delaware Today magazine, in the March 2016 issue, named Smyrna as one of the ten great small Towns in Delaware. Following the 2021 Census, the Town finds itself at the central growth area of Delaware and looks to continue smart growth over the next decade, potentially doubling its population.

The Town currently occupies a land area of 3.8 square miles and serves a population of approximately 13,277 as of 2023. This is a minimal increase from 2022 where the census count placed the Town’s population at 13,250.

The Town obtains its authority from the State constitution and/or statutes adopted by the State legislature. A Town government's powers and functions are generally established by state laws and local charters, granting the ability to govern themselves and provide essential services. The Town has a written charter, and charter amendments which are governed by 22 Del. C. Ch. 8.

### **Town Council and Governance**

The Town’s governing body is composed of a mayor and six Council members. Three Council members are elected from designated districts and serve staggered, three-year terms. Three members of Council and the mayor are elected at-large. The mayor serves a two-year term; the three at-large elected Council members serve three-year terms. The Council is responsible for all matters of policy and is the authority for levying taxes, securing revenues, authorizing expenditures and incurring Town debts. The Town operates under a Council–manager form of government established in May 1945. Under this form, the Council is responsible for legislative functions such as establishing policy, passing ordinances, and developing a vision for the Town. The Town manager is responsible for the administration of Town affairs and for implementing the policies enacted by the Town Council. The Town manager oversees each department, manages Town staff, administers funds, and advises the Council.

The Town provides a full range of services as mandated by the Town charter or code adopted by Council. Services include police protection, volunteer fire company and EMS, streets and sanitation maintenance, recreation, library, public improvements, planning and zoning, safety inspections, electric power generation and distribution, water supply and wastewater services,

legislative services, and general administration. The Town employs approximately 157 full-time and part-time employees.

The Town provides funding to the volunteer fire company and the EMS for assistance with operating costs. These payments are part of the general fund operating budget. Both the fire and ambulance services receive dedicated impact fees to help meet capital needs. The Town is also served by a 24-hour emergency department and services operated by Bayhealth Medical Center as well as medical services provided by Christiana Care Medical Center.

### **Financial Governance, Management, and Budget**

The Town currently utilizes 2 computer programs (Central Square and Munis) as its 2 main accounting systems for all fiscal activities and has a banking relationship with PNC and WSFS bank for its 17 bank accounts (PNC #14, WSFS #3). Revenue is mainly recorded in Central Square, and there is a conversion of the general ledger and the accounts payable module to Munis/Enterprise Pro (currently Tyler Technologies). Currently there is a contract with Tyler Technologies to support the Town's transition to Munis. The general ledger system conversion date from Central Square to Munis was originally set for Sept. 1, 2022. The Town of Smyrna is currently running both systems in parallel.

The fiscal year of the Town is January 1<sup>st</sup> to December 31<sup>st</sup>. Historically in December, the Council adopts an annual budget which includes real estate property tax rate per \$100 of assessed value. (78 Del. Laws, c. 339, §12; 80 Del. Laws, c. 98, §1). The Council determines revenue needs, revenue sources, and taxation rate. The amount of revenue is determined by the following sources:

- Real Estate and Improvements - The proposed rate of tax on real estate
- Utility Fixtures - The proposed rate of tax upon all poles, construction, erections, wires, and appliances
- License Fees - License fees to be charged for carrying on or conducting of the several businesses, professions, or occupations.
- Municipal Services – Rates to be charged for furnishing water and sanitary sewer service and front footage assessment; electric supply and distribution service; trash collection.
- Other Services - Fees or rates to be charged in respect to any other authorized source of revenue.

The Town is required by charter to retain a Certified Public Accountant (CPA) to be the “auditor of accounts”. The CPA is required to deliver an audit report on or before June 30<sup>th</sup> of each fiscal year. The report must be published in a newspaper of general circulation in the Town of Smyrna within ten (10) days of its receipt by Council.

### **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. The Town reviewed and approved the annual budget for General Fund Revenue of \$7,538,700.00 for

2022, and \$14,827,039.00 for 2023. Increase in revenue was due to anticipated utility increases for water, sewer, and electric services, and a transfer from the utility accounts to the general fund that represented the projected available cash.

The Council approved an increase in the tax rate from \$0.47 in FY 24 to \$0.94 (per \$100 of value) for FY 25. The Council determined that the increase was necessary to meet all fixed and anticipated expenses and obligations of the Town.

### **Property Taxes**

The Town's billing department participates in the annual property tax billing process. The billing department performs the annual tax calculation and billing process using the annual tax levy rate approved by the Council and the property valuation information received from Property Tech/Tyler Technologies.

Annually, by May 15<sup>th</sup>, the property tax bill information is provided to the Council for review and approval. Tax bills are sent to Town residents during the month of May. Tax bills were previously mailed by Billtrust, as the Town's 3rd party mailer. The Town is currently transitioning to Infosend as the new 3<sup>rd</sup> party mailer.

**FINDINGS AND RECOMMENDATIONS.**

**Objective:** Verify the design and operational effectiveness of internal controls over financial activities, reporting, and governance, and evaluate the entity's fraud prevention measures.

**FINDING 01: FORMALIZED BANK RECONCILIATION PROCESS**

**Condition:** The Town lacks a formalized and documented procedure for the timely prioritization and completion of bank reconciliations. Additionally, there are no clearly defined roles and responsibilities assigned for the preparation, review, and oversight of financial reports related to bank reconciliations by management or Council. Although the Town utilizes a third-party service provider to perform bank reconciliations, the internal process of transmitting necessary financial information to the provider is not conducted in a timely manner.

**Cause:** The absence of internal control, including established policies, limited oversight, and personnel resource constraints hinder the Town from completing its bank reconciliations timely.

**Effect:** The Town's fiscal audit and ACFR was not completed timely for FY 2022. The GFOA has not completed its audit of the ACFR for 2023. Insufficient staffing and limited oversight and accountability led to delays in bank reconciliations and financial reporting as bank reconciliations were not provided for FY 2023. Left unaddressed, the condition may lead to an increased risk of operational and financial mismanagement, leading to potential misappropriation of funds.

**Criteria:** Standards for Internal Control in the Federal Government (Green Book), GAAP, The Government Finance Officers Association's (GFOA) guidance on Financial Management, COSO Internal Control Integrated Framework.

**RECOMMENDATION 01:**

**Recommendation 1:** We recommend that the Town create formalized written procedures to prioritize, and complete bank reconciliations timely, either internally, or to the third-party. Any developed procedures should clearly assign responsibility for the creation of financial reports with respect to bank reconciliations. Procedures should define the role that management and Council have in the review and approval of bank reconciliations.

**Recommendation 2:** Proper internal controls would reduce the risk of operational and financial misstatement that could lead to potential misallocation of funds and reduce the Town's susceptibility to fraud. The Town should consider implementing the following internal controls to properly monitor financial oversight practices in line with their governance and fiduciary responsibilities:



- Segregation of duties within the bank reconciliation process
- Timely preparation of reconciliations with proper oversight
- Independent review of operations and approvals

Objective: Examine compliance with ARPA funding terms, ensuring proper use, accounting, allocation, tracking, and reporting of funds

## **FINDING 02: FORMALIZED CAPITAL PROJECT/ARPA FUNDS PROCESS AND PROCEDURES**

**Condition:** The Town does not have a formalized written process or procedure that outlines the roles and responsibilities to review, update, track, and approve projects or funding sources for capital projects/ARPA. Total amount in ARPA funds distributed totaled of \$6,337,622.93. The Town was unable to provide documentation that was related to capital projects and ARPA such as:

- Project commencement date
- Current status of a project
- Budgeted amount
- Percentage of funds allocated from a funding source
- Amount of funds utilized and remaining per funding source per project.

Additionally, for one of the projects the Town was unable to locate the payment made to a Vendor for a discrepancy of \$12,260. Management stated that they were unable to locate the payment PO or payment in their system and were unable to identify the company the payment was made to.

**Cause:** The Town did not develop or maintain a centralized tracking system. There is no dedicated platform or database to manage funding sources, expenditures, and project status. Inconsistent documentation practices exist as there is no standardized method for recording project commencement dates, budgets, or fund allocations.

**Effect:** The absence of regular reviews for capital projects/ARPA funds by management and Town Council may lead to potential misstatement and misallocation of funds from the incorrect funding source. The absence of a tracking system may lead to projects deviating from planned financial objectives for the Town.

**Criteria:** Standards for Internal Control in the Federal Government (Green Book), GAAP, the Government Finance Officers Association's (GFOA) guidance on Financial Management, COSO Internal Control Integrated Framework, ARPA SLFRF Award Terms and Conditions.

## **RECOMMENDATION 02:**

**Recommendation 1:** We recommend the Town develop a formalized written process and procedure that outlines roles and responsibilities for reviewing, updating, tracking, and approving projects and funding sources for capital projects/ARPA. The tracking matrix should include detailed information necessary to track projects and their status from start to finish. Additionally, management and Town Council should maintain documentation that is able to reflect the following:

- Project commencement date
- Current status of a project
- Budgeted amount
- Percentage of funds allocated from a funding source
- Amount of funds utilized and remaining per funding source per project

**Recommendation 2:** We recommend that the Town develop a uniform tracking matrix that is maintained and reviewed periodically. A well-developed tracking system should include the details and information necessary to systematically monitor and manage various aspects of a project or process to help track progress, responsibilities, and key metrics, ensuring accountability and efficiency.

Objective: Assess the effectiveness of the entity's financial governance framework and daily financial operations, including oversight, decision-making, roles, policies, record-keeping, budgeting, compliance, and transparency.

### **FINDING 03: PERIODIC REVIEW OF BUDGET TO ACTUAL COMPARISON**

**Condition:** The Town does not have a formalized process or procedure for management to generate, review, and approve budget to actual comparisons periodically. Without adequate oversight and monitoring in place to review current expenditures to budgeted line items, the Town is unable to detect variances from planned financial objectives or determine the causes of the variance. The absence of a framework for a budget to actual report and review prevents management and Council from having a complete understanding of the current financial position of the Town.

**Cause:** There is no established process for management to generate, review, and approve budget-to-actual comparisons. Additionally, the Town is running parallel systems between Central Square and Munis. The conversion from Central Square to Munis began in the third quarter of 2022 and has not been completed.

**Effect:** This process serves as an internal control to mitigate the risk of human error and fraud in the fiscal management of the Town. The running parallel systems between Central Square and Munis prevents management and employees from fully utilizing the capabilities of the software efficiently and effectively.

**Criteria:** Standards for Internal Control in the Federal Government (Green Book), GAAP, The Government Finance Officers Association's (GFOA) guidance on Financial Management, COSO Internal Control Integrated Framework.

### **RECOMMENDATION 03:**

**Recommendation 1:** We recommend that the Town develop a formalized process and procedure for management and Council to generate, review, and approve budget to actual comparisons periodically at Council meetings.

**Recommendation 2:** We recommend that the Town complete the conversion to the new accounting system to consolidate financial operations and fully utilize the capabilities of the software efficiently and effectively.

Objective: Verify the design and operational effectiveness of internal controls over financial activities, reporting, and governance, and evaluate the entity's fraud prevention measures.

**FINDING 04: MANAGEMENT OVERSIGHT AND ADHERENCE TO PROCUREMENT POLICY**

**Condition:** The Town did not have adequate oversight, and monitoring in place to fully adhere to the Town's procurement policy. AOA tested a sample of 18 Fixed Assets, where 13 were without a purchase order. This oversight process serves as an internal control to mitigate the risk of weak purchasing controls, and potential fraud in the purchase and procurement functions.

**Cause:** The absence of internal controls and adherence to policy in financial matters hinders effective oversight. The turnover of management and accounting staff has resulted in the lack of continuity in financial oversight practices.

**Effect:** Without proper oversight, there is an increased risk of unauthorized spending, financial misstatement, and inefficiencies and potential misallocation of funds with a greater susceptibility to fraud.

**Criteria:** Standards for Internal Control in the Federal Government (Green Book), GAAP, The Government Finance Officers Association's (GFOA) guidance on Financial Management, Town of Smyrna Purchasing Policy and Procedure (Procurement Policy)

**RECOMMENDATION 04:**

**Recommendation 1:** We recommend that the Town strengthen the oversight, and monitoring to ensure adherence to its procurement policy to mitigate the risk of weak purchasing controls, loss in revenue, and fraud.

We specifically recommend that management update and consistently follow the written policies and procedures for the procurement process.

Documented procedures should be made accessible to relevant staff and incorporated into training and onboarding programs of new employees.

Objective: Assess the effectiveness of the entity's financial governance framework and daily financial operations, including oversight, decision-making, roles, policies, record-keeping, budgeting, compliance, and transparency.

#### **FINDING 05: DOCUMENTED POLICY AND PROCEDURE MANUAL**

**Condition:** The Town did not have a comprehensive written policy and procedures manual to govern its operations and decision-making processes. There is no clear channel of communications between Council members and Town management to prevent confusion and inefficiency of the Town's financial activities and financial standings. The 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 fill vacancies.

**Cause:** The Town's organizational structure operates without written policies and procedures. Management has not prioritized the development and implementation of written policies and procedures due to time constraints, resource limitations and staff turnover.

**Effect:** The absence of clear policies, procedures and financial 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), GAAP, The Government Finance Officers Association's (GFOA) guidance on Financial Management, COSO Internal Control Integrated Framework.

#### **RECOMMENDATION 05:**

**Recommendation 1:** We recommend that the Town establish formal process for developing, reviewing, and approving a comprehensive set of written policies and procedures. Those policies and procedures should establish clear roles and responsibilities for Council members, management and financial employees. The Town should ensure that these documents are regularly updated and accessible to relevant employees.

Additionally, the Town should follow a structured approach to identify, assess, and prioritize areas for policy and procedure development and implementation using a decision-making tool that ranks tasks based on predefined criteria.

The Town should also develop centralized communication channels between Town Council, town management, and employees to prevent contradictory instructions or expectations.



**TOWN OF SMYRNA MANAGEMENT'S RESPONSE TO AUDIT FINDINGS**

27 S. MARKET STREET PLAZA, SMYRNA, DE 19977

**State Audit Responses  
Summary by Copilot****Finding 1: Federal Awards – ARPA Tracking and Documentation****Finding Detail:**

During our review of the Town's use of American Rescue Plan Act (ARPA) funds, we noted that the Town did not utilize a centralized or robust system to track the disbursement and use of these federal funds. Additionally, documentation for how ARPA funds were used was inconsistent, and approvals were not clearly documented in a centralized format.

**Response:**

**All town projects and funding sources are project coded for easy tracking of revenues (grants) and expenditures. This will improve management review of all projects.**

**Finding 2: Management Oversight and Adherence to Procurement Policy****Finding Detail:**

The Town lacked a comprehensive procurement policy during fiscal years 2022 and 2023. Purchases, including those using federal funding, were made without clear documentation of competitive bidding or procurement steps. The absence of a formal policy increases the risk of non-compliance with federal regulations and reduces transparency in spending.

**Response:**

**We understand the importance of having a formal policy and are working to put a staff member in place to manage and implement procurement procedures. All town projects and funding sources are project coded for easy tracking of revenues (grants) and expenditures. This will improve management review of all projects**

**Finding 3: Financial Reporting and System Integration****Finding Detail:**

The audit noted that the Town has not fully implemented its financial reporting software, Munis, which has led to delays in financial reporting and inefficiencies in operations. This incomplete implementation may hinder the Town's ability to produce timely and accurate financial reports and conduct effective oversight.



27 S. MARKET STREET PLAZA, SMYRNA, DE 19977

**Response:**

We had previously discussed the need to reevaluate the Town's needs to consolidate and eliminate some of the software packages. This is the plan for 2026. The council receives monthly finances that are included in their monthly council package. We have implemented several support internal controls policies and streamline the reporting processes.

**Finding 4: Lack of Segregation of Duties and Internal Controls**

**Finding Detail:**

The Town's internal control structure lacked proper segregation of duties in several key areas, particularly in financial operations. A single individual had access to initiate, approve, and record transactions. This situation creates the risk of undetected errors or fraud.

**Response:**

We have implemented several support internal controls policies and streamline the reporting processes.

**Finding 5: Bank Reconciliation Process**

**Finding Detail:**

Bank reconciliations were not consistently performed in a timely manner. The Town lacked adequate staffing in the finance department, which contributed to a delay in reconciling accounts. This delay can hinder financial accuracy and oversight.

**Response:**

We are currently in the process of filling positions to ensure that bank reconciliations and all critical financial tasks are completed in a timely and accurate manner.



27 S. MARKET STREET PLAZA, SMYRNA, DE 19977

#### **Finding 6: Internal Controls – Policies and Procedures**

##### **Finding Detail:**

The Town lacked formal written procedures and policies in multiple operational areas, including finance, procurement, and program administration. The absence of documented procedures can lead to inconsistent practices, lack of accountability, and challenges in staff training and oversight.

##### **Response:**

**We have implemented several support internal controls policies and streamline the reporting processes.**

##### **Summary:**

**We fully acknowledge the deficiencies identified in the audit. However, we want to emphasize that many of the issues noted have already been addressed or are actively being worked on. We are committed to improving the Town's financial practices and internal operations through better policies, stronger oversight, and the implementation of modern systems and staffing solutions. Our goal is to ensure long-term stability, transparency, and accountability for the Town of Smyrna.**

##### **Submitted by:**

**Torrie M. James, Town Manager**

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ROBERT C. JOHNSON, MAYOR	MICHAEL RASMUSSEN, VICE MAYOR	WILLIAM D. PRESSLEY, JR., COUNCIL SECRETARY
TABITHA GOTT	ALVIN POPE	DEAN JOHNSON
CORRINE UPSHUR		
CUSTOMER SERVICE/BILLING	OFFICE OF THE TOWN MANAGER	PERMITS/INSPECTIONS
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		PUBLIC WORKS
		302-653-9288
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TORRIE M. JAMES, TOWN MANAGER	JASON MCNATT, ASSISTANT TOWN MANAGER	

**Auditor's Note:** AOA has rescinded Segregation of Duties Finding for being out of scope for this performance audit.

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

The scope of this performance audit was for the period of January 1, 2022, through December 31, 2023. Our performance audit addressed the following objectives in accordance with 29 Del. C. §2906 of the Delaware Code, ARPA requirements and the Town Charter:

- Verify the design and operational effectiveness of internal controls over financial activities, reporting, and governance, and evaluate the entity's fraud prevention measures.
- Assess the effectiveness of the entity's financial governance framework and daily financial operations, including oversight, decision-making, roles, policies, record-keeping, budgeting, compliance, and transparency.
- Examine compliance with ARPA funding terms, ensuring proper use, accounting, allocation, tracking, and reporting of funds.
- Evaluate the accuracy, completeness, and timeliness of property tax calculations, collections, and reporting in financial statements.

During the audit, management was unable to locate key records, resulting in significant limitations that impacted our ability to fully assess financial transactions, regulatory compliance and operational effectiveness.

**Audit Approach**

Our approach consisted of the following procedures:

**A. Planning Phases: Understanding and documenting processes, risks, and control design:**

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

- Conducted interviews and walkthrough's with key personnel to obtain an understanding of the function and operating process, performed a risk assessment, and assessed the design of the operating process and key controls.
- Obtained financial information, reviewed applicable federal and state laws and regulations, reviewed the Town Charter, and reviewed supporting documentation related to critical processes.

**B. Evaluation of financial processes, control design/implementation, and testing of operating effectiveness of controls:**

This phase was designed to evaluate key processes and control implementation, as well as to test compliance and internal control effectiveness based on our understanding obtained during the initial planning phase. We utilized sampling and other auditing techniques to achieve the audit objectives. 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 the 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 the testing strategy.

Refer to the Methodology section below for detailed procedure information.

### C. 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's testing was conducted using sampling and other auditing techniques and methodologies. Methodologies included, but were not limited to:

- Interviewed the following individuals/positions:
  - Town Mayor
  - Town Vice Mayor
  - Town Council Members
  - Former Town Manager
  - Former Finance Director
  - Current Town Manager/ Police Chief
  - Town of Smyrna Management and Staff
- Performed site visits at the Town office.
- Reviewed and analyzed the following information:
  - A list and description of the pertinent information systems used by the Town for accounting and financial reporting (Central Square & Munis).
  - The last prior ACFR of the Town for the year ended December 31, 2021 conducted by Belfint Lyons & Shuman, CPA.
  - The Town's methods for storing hard copy documents and other historic records as well as any digital records.
  - The Town's Personnel Manual.

- The Town's website and information provided to the public.
- Compared the Town's Property Tech's master taxpayer list for 2022 and 2023.
- Performed data analytics and analysis using Microsoft Excel, where possible, to evaluate the operational and financial performance, and reviewed for trends and outliers.
- Performed sampling and testing against criteria for the following areas:
  - Property Taxes:
    - Performed a test of property tax owners billed by the Town.
    - Obtained an understanding of the taxpayer and taxpayer population by reviewing the master taxpayer list provided for FY 2022 and 2023 and compared the data to the property tech assessment data.
    - Performed a stratified/then random sample (20 per range of value of \$300,00+, \$150,000 - \$299,999, and 0 - \$149,999) to provide a representative sample of the population for FY 2022 & 2023.
    - Verified the completeness, and the accuracy of property data on the statement with master taxpayer list, and AOA calculations to the information provided. This included the following:
      - a. AOA Statement Content
      - b. Assessment Amount Correct
      - c. Account Number Correct
      - d. Owner Name Correct
      - e. Address/Location Correct
      - f. Mailing Address Correct
      - g. Current Tax Amount Correct
      - h. Discount Amount Correct
      - i. Quantity (Per 100 per charter) times rate correct
      - j. Tax calculation correct
  - ARPA Fund Allocation:
    - Verified the amount of ARPA funds received by the Town of Smyrna from OST website (<https://treasurer.delaware.gov/arpadb/>).
    - Reviewed the subrecipient monitoring process to ensure that ARPA funds are obligated and/or spent by the established deadline of December 31, 2024.
    - Reviewed and verified the process involved in allocating, obligating, selecting, approving, and monitoring of ARPA funds received for capital projects.
    - Categorized the List of ARPA projects by Projects Completed to select a sample for testing.
  - Fixed Assets:
    - Performed a test of the Town's fixed assets for calendar years 2022 and 2023
    - Obtained a detailed report of all fixed assets at year-end 2022 and 2023.
    - Obtained a digital copy of the detail trial balances
    - Identified "blanket" purchase orders's for large capital projects



- Selected assets which were put into service for the corresponding period (2022, 2023)
- Haphazardly selected 10 assets per fiscal year that amounted to \$10,000 or more
- Financial Governance:
  - Performed a test on the Town Council minutes to document financial governance in the meeting minutes.
  - Obtained and reviewed Town Council minutes and determine if the Town's budget, strategic & continuity plans, bank reconciliations, and the annual financial audit were reviewed and approved by Council members.
  - Extracted portions of the minutes that relate to budget, control procedures, and planning in relation to financial governance.
  - Reviewed and tested the general fund account reconciliation for the period under review.
  - Confirmed whether the bank reconciliations were approved.
  - Determined if the reconciled bank balance agreed to each month end trial balance.
  - Agreed bank statement balance to reconciled bank balance on the reconciliation for accuracy.
  - Performed an accounts payable walkthrough and observed the accounts payable staff while a transaction was processed.
  - Performed a test on employee stipends
  - Obtained payroll reports and the personnel policy manual.
  - Selected 10 paychecks from the selected employees and reviewed the paystubs to confirm the amount of stipend paid per weekly pay period.
  - Verified whether employee stipends paid out are in compliance with the policy outlined in the Town's personnel policy manual.
  - Identified stipends paid out that exceeded the threshold determined in the personnel policy manual.
  - Performed a test on expense accounts
  - Obtained the detailed trial balance and the general ledger for each fiscal year within the scope of the audit.
  - Selected two expenses from each month to test for accuracy and compliance with procurement policy.
  - Performed a test on payroll budget
  - Obtained quarterly payroll reports and budget reports for the fiscal years within the scope of the audit.
  - Compared the enacted payroll budget for each staff department to the year-end payroll expenditures and analyzed results to determine whether salary and overtime exceeded the budgeted amount.
  - Performed an analytical test on payroll expenditures
  - Chose four random months in each fiscal year within the scope of the audit as a sample for testing.
  - Reviewed payroll records generated by the payroll processing firm and compared employee payroll expenditures to the detailed trial balance

entries to confirm matching amounts to payroll reports and bank statements.

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.

**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”.
- Generally Accepted Accounting Principles (GAAP)
- The Government Finance Officers Association’s (GFOA) guidance on Financial Management.
- State of Delaware DOA Budget and Accounting Manual (BAM).
- Delaware Constitution
- Titles of Delaware State Law (Delaware Code)
- Delaware Code – Title 22 – Municipalities
- Delaware Code – Title 09 – Counties
- Kent County Code related to Property Taxes
- The Town of Smyrna Town Charter
- The Town of Smyrna Town Council Approved Resolutions & Ordinances (if available)
- Town of Smyrna Purchasing Policy and Procedure (Procurement Policy)
- The Government Finance Officers Association’s: Asset Best Practices
- The Government Finance Officers Association’s: Guidance on Developing Strategic Plans
- ARPA SLFRF Award Terms and Conditions
- FEMA.gov & State of Delaware COOP Requirements