

**DELAWARE MUNICIPAL ELECTRIC CORPORATION**  
**Regular Audit Committee Meeting**  
February 11, 2020  
Smyrna, Delaware

A meeting of the Audit Committee of the Board of Directors of the Delaware Municipal Electric Corporation was held on February 11, 2020 at the DEMEC offices, Smyrna, Delaware.

The meeting was called to order at 3:06 p.m.

The following roll call was presented:

Committee Present:

Pamela Patone, Chair  
MSC of New Castle, General Manager/Secretary  
Tyler Reynolds  
Town of Middletown, Finance Manager  
David Del Grande (via telephone)  
City of Newark, Finance Director

DEMEC Staff Present:

Stephanie Dove, Director of Accounting and Settlements

Special Guests: None.

APPROVAL OF MINUTES – November 19, 2019

Upon motion by Mr. Reynolds and second by Mr. DelGrande, the November 19, 2019 Regular Audit Committee meeting minutes were approved by the Committee.

FOLLOW UP ON ACTION ITEMS

Finance Committee Scope

The Committee discussed that the draft document be added to the Board meeting agenda for the Board to review and consider. The Committee requested a financial calendar be prepared so the committee can adhere to review dates as not to inhibit DEMEC staff during the process. Discussion was had regarding the expansion of the Audit Committee role in order for the current committee to transition to a Finance Committee role. Mr. DelGrande suggested a name change from Finance Committee to Financial Advisory Committee, indicating the committee's role as advisory and review only. The Committee agreed that a name change to Financial Advisory Committee would be appropriate.

Investment Services RFP

Ms. Dove explained that due to Financial Statement preparation, DEMEC staff has not had time to research and make recommendations on an Investment Services RFP. The item will stay on the agenda for future discussion. Discussion on purchasing policies was had and it was noted that a working group may be helpful in drafting a purchase policy. A purchase policy will be added to the agenda for the next meeting.

The Audit Committee is an advisory-only committee of the DEMEC Board of Directors and has no power to finally approve or order any action. The power to act rests exclusively with the DEMEC Board of Directors.

## AUDIT

### Audit RFP

The committee cursory reviewed two RFP for Audit services that were received. The committee felt both firms would be capable of providing the necessary services. Ms. Dove noted that one firm, in her opinion, lacked the Joint Action Agency and Regulatory Accounting experience needed to understand DEMEC's complicated financial statements. Ms. Patone will be sending a scorecard and timeline to the committee and DEMEC staff to access the two proposals. Once scored, the committee will meet to review and discuss the scoring and selection recommendation.

### Audit Status

DEMEC staff advised that the Draft Financial Statements and Footnotes were sent to the President for review. All documents requested by the auditors have been uploaded to their portal and the auditors are on site for final fieldwork next week.

## AUDIT COMMITTEE LEADERSHIP

### Rotation of Chair

The committee discussed the rotation of the chair position. Mr. Reynolds questioned if the Chair position needs to be a Board Director or can an alternate serve as chair. It was determined that either could serve. Ms. Patone stated that since she has been Chair for several years that she is stale in the role and it should be rotated. Mr. Reynolds and Ms. Patone agree that it would be beneficial to have a Chair that also served on the Executive Committee. Ms. Patone noted that if the Executive Committee dissolves, then this will alleviate that issue. Mr. DelGrande asked for Ms. Patone to stay on as Chair until September because of her strong audit background. Mr. Reynolds agreed and going forward Mr. DelGrande will serve as Chair beginning in September and Mr. Reynolds will serve as Chair the following year. This could change if the Audit Committee membership/structure changes.

## ACCOUNTING POLICIES & PROCEDURES

### Inventory Policy

Staff provided a Draft Inventory Policy for discussion and guidance. Ms. Patone requested staff to send the Draft policy to the auditors for comment. The Committee was concerned that the policy did not address theft and what controls are in place to mitigate theft of materials. DEMEC staff noted that this has not been a past issue given the security clearance and cameras at the plant. Mr. Reynolds asked for the word "used" to be better defined as staff noted that these are parts that would have been purchased used, not parts that were previously used in plant operations. The Committee suggested that the Fuel Oil Inventory policy be added into the Inventory Policy. Staff indicated that this would be an option if there are no PJM rules that would prevent the policies from being together.

### BUSINESS FROM THE FLOOR

The Committee discussed that the DEMEC Treasurer should also be a member of the Audit Committee. If the executive committee is dissolved, it was discussed that this could change the role of the Audit Committee.

December 31, 2019 Draft unadjusted financial statements were presented. Staff noted, that per the Board's request in prior years, none of the end of year adjustments were included in the drafts. The Committee requested a quarterly overview on the financial statements moving forward. The Committee will be given final 2019 Financial Statements before they are finalized by the auditor. The Committee has a phone conference with the auditors on February 26, 2020

### EXECUTIVE SESSION

The Committee did not adjourn to executive session.

### NEXT MEETING DATES

DEMEC staff will distribute calendar invites to the committee members for the upcoming meetings set for:

- a. Tuesday, March 17, 2020 at 9:00am
- b. Tuesday, May 19, 2020 at 9:00am
- c. Tuesday, August 18, 2020 at 9:00am

### ADJOURMENT

The Audit Committee adjourned at 4:47 pm.