

TOWN OF DEWEY BEACH
AUDIT COMMUNICATIONS
MARCH 31, 2017

C O N T E N T S

	Page(s)
I. Communications with Those Charged with Governance	3 – 6
II. Communications Regarding Internal Control Matters	7 – 10
III. Comments and Recommendations	11 – 13
IV. Adjusting Journal Entry Reports	14 – 18

I. COMMUNICATIONS WITH THOSE CHARGED WITH GOVERNANCE

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
Mark A. Welsh



August 7, 2017

Audit Committee
Town of Dewey Beach, Delaware
Dewey Beach, Delaware

We have audited the financial statements of the governmental activities and each major fund of the Town of Dewey Beach, Delaware (the “Town”) for the year ended March 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 8, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2017. We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Town’s financial statements were:

- Management’s estimation of depreciation expense is based on the estimated useful lives of the underlying assets. We evaluated the key factors and assumptions used to

develop the expense in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the net pension liability is based upon an actuarial study performed by a third party. We evaluated the key factors and assumptions used to develop the pension liability and pension expense in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the fair market value of investments is based upon reports provided by a third party. We evaluated the key factors and assumptions used to develop the fair market value in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The attached Adjusting Journal Entry Reports, as listed in the table of contents, lists misstatements corrected by management, including material misstatements detected as a result of audit procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 7, 2017.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the Town’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the schedules, as listed in the table of contents to the financial report, with are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Audit Committee, Mayor and Council, and management of the Town of Dewey Beach, Delaware and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "TGM Group LLC". The signature is written in a cursive, flowing style.

TGM Group LLC

II. COMMUNICATIONS REGARDING INTERNAL CONTROL MATTERS

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
Mark A. Welsh



August 7, 2017

Audit Committee and Management
Town of Dewey Beach, Delaware
Dewey Beach, Delaware

In planning and performing our audit of the financial statements of the governmental activities and each major fund of the Town of Dewey Beach, Delaware (the “Town”) as of and for the year ended March 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Town’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in internal control to be material weaknesses:

Finding Number 2017-1

Criteria: Proper segregation of duties should be in place to strengthen internal controls to provide reasonable assurance that a material misstatement to the financial statements is prevented.

Condition: We noted that the system currently in place creates conflicts within duties assigned to a single individual and produces a high level of internal control risk. During our audit, we noted a lack of segregation of duties.

Cause: The lack of an appropriately designed internal control system has produced conflicts regarding assigned duties.

Effect: Segregation of duties issues do not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, errors and/or the misappropriation of assets on a timely basis.

Recommendation: We recommend that, when possible, responsibilities for authorization, recording, and maintaining custody of assets be assigned to different employees. In situations where this is not possible, we recommend the implementation of certain transaction review controls. It is important to note that review controls do not eliminate all risk when segregation of duties conflicts exist, and management and those charged with governance need to be aware of such risks.

Identification of Repeat Finding: Due to the nature and size of the Town, this is a repeat finding.

Views of Responsible Officials: It has been determined that it would not be cost effective for the Town to add additional personnel to ensure complete segregation of duties in the finance department.

Finding Number 2017-2

Criteria: Timely account reconciliations of the subsidiary ledgers to the general ledger helps to provide reasonable assurance that a material misstatement to the financial statements is prevented.

Condition: We noted that several subsidiary ledgers, including Edmunds' reports, related to cash receipts for significant revenue sources did not agree to the amounts posted to the general ledger. Further, Town personnel often have difficulty reconciling these subsidiary reports to the general ledger.

Cause: The lack of timely account reconciliations, combined with inadequate personnel training related to the Edmunds software, makes it difficult to ensure amounts recorded on the general ledger accurately represent the Town's activities.

Effect: The failure to timely reconcile accounts does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, errors and/or the misappropriation of assets on a timely basis.

Recommendation: We recommend implementing accounting policies to ensure timely account reconciliations. We also recommend accounting personnel receive additional training in Edmunds.

Identification of Repeat Finding: This is not a repeat finding.

Views of Responsible Officials: The Town believes the primary reason for this condition was significant turnover in the accounting function during the fiscal year. Additionally, the Town intends to begin performing reconciliations of all significant accounts.

This communication is intended solely for the information and use of management, the Audit Committee, and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "TGM Group LLC". The signature is written in a cursive, flowing style.

TGM Group LLC
Salisbury, MD
August 7, 2017

III. COMMENTS AND RECOMMENDATIONS

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
Mark A. Welsh



August 7, 2017

Audit Committee
Town of Dewey Beach, Delaware
Dewey Beach, Delaware

In planning and performing our audit of the financial statements of the Town of Dewey Beach, Delaware (the "Town") for the year ended March 31, 2017, we considered the Town's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. We previously reported on the Town's internal control in our report dated August 7, 2017. This letter does not affect our report dated August 7, 2017 on the financial statements of the Town.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist in implementing the recommendations.

We wish to thank the employees of the Town for the assistance and cooperation provided us during our engagement.

A handwritten signature in black ink that reads 'TGM Group LLC' in a cursive, stylized font.

TGM Group LLC
Salisbury, Maryland

COMMENT

Payroll Approval

Department heads are required to review the timecards for each pay period. Currently, it is the Town's policy to not require a signature from the department heads to indicate their approval. By not requiring a signature, it makes it difficult to ensure each timecard has been approved. We again recommend formalizing a policy requiring the employee and their department head to sign and date each timecard indicating their approval prior to processing payroll.

IV. ADJUSTING JOURNAL ENTRY REPORTS

Client: **134400.0 - Town of Dewey Beach, Delaware**
Engagement: **2017AU - Town of Dewey Beach**
Period Ending: **3/31/2017**
Trial Balance: **General Fund**
Workpaper: **AJE - GF - AJE Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		DD-01/01		
To reclass amounts recorded in the fund balance accounts				
3003000	Legal & Litigation		400.70	
3010001	GFB-Committed St 20% Bldg Perm		354.08	
3010001	GFB-Committed St 20% Bldg Perm		1,397.00	
3010002	GFB- Comp Plan 3% Tran Tax		5.93	
9010030	Bayard Ave Loan Revenue		26,123.29	
9010031	Bayard Ave Loan Expense		26,123.29	
9030040	Other Streets Revenue		60,411.66	
3010001	GFB-Committed St 20% Bldg Perm			52,246.58
3010001	GFB-Committed St 20% Bldg Perm			60,411.66
4016010	Bldg Permit Fees			1,397.00
8010210	Interest Income			5.93
8010210	Interest Income			354.08
8010210	Interest Income			400.70
Total			114,815.95	114,815.95
Adjusting Journal Entries JE # 2		BB-01		
To adjust debt balance to actual				
2100000	Loan - DNREC		47,064.00	
2110000	Provision for Notes Payable			47,064.00
Total			47,064.00	47,064.00
Adjusting Journal Entries JE # 3		C-01		
To adjust DBE receivable to actual				
1002500	DBE Receivable		210,000.00	
1002510	Provision for DBE Receivables			210,000.00
Total			210,000.00	210,000.00
Adjusting Journal Entries JE # 4		AA-02		
To adjust compensated absences to actual				
2010121	Provision Compensated Absences		13,584.22	
2010120	Compensated Absences			13,584.22
Total			13,584.22	13,584.22
Adjusting Journal Entries JE # 5		AA-01		
To book invoice that should have been included in AP				
6090106	Beautification		2,262.83	
20000	Accounts Payable			2,262.83
Total			2,262.83	2,262.83
Adjusting Journal Entries JE # 6		AA-03		
To reverse out PY prepaid				
6020020	Employee Benefits		14,866.43	
2000009	Health Ins Payable			14,866.43
Total			14,866.43	14,866.43
Adjusting Journal Entries JE # 7		AA-01		
To reverse payable that is a transfer				
20000	Accounts Payable		9,057.14	
1000111	Street Infrastr 20% Bldg Permit			3,881.63

Client: **134400.0 - Town of Dewey Beach, Delaware**
Engagement: **2017AU - Town of Dewey Beach**
Period Ending: **3/31/2017**
Trial Balance: **General Fund**
Workpaper: **AJE - GF - AJE Report**

Account	Description	W/P Ref	Debit	Credit
1000113	Comp. Plan -3%TransferTax			5,175.51
Total			9,057.14	9,057.14
Adjusting Journal Entries JE # 8		F-01		
To adjust fixed assets for additions and disposals during the year				
1005250	Equipment 02		146,629.95	
1005350	Equipment 03		54,733.00	
1005900	Accumulated Depreciation		52,469.75	
3010100	Fixed Asset Investments		16,193.04	
1005150	Equipment			14,401.50
1005250	Equipment 02			32,819.25
1005350	Equipment 03			5,249.00
1005900	Accumulated Depreciation			16,193.04
3010100	Fixed Asset Investments			201,362.95
Total			270,025.74	270,025.74
Adjusting Journal Entries JE # 9		10-04		
To reclass expenses recorded in the transfer tax revenue accounts				
9010041	Town Administrative Expenses		11,526.00	
9540000	3% Trans Tax to Comp Plan			11,526.00
Total			11,526.00	11,526.00
Adjusting Journal Entries JE # 10		PBC GF AJE #10		
To reclass revenues to correct account				
9010020	DEMA Revenue		2,000.01	
9510030	Town Hall Property Reno Expense		2,000.01	
9510000	Town Hall			4,000.02
Total			4,000.02	4,000.02
Adjusting Journal Entries JE # 11		10-06		
To record amount due to BRF for beach tax receipts incorrectly recorded as accommodations tax				
4010015	Accommodation Tax		23,930.60	
2010231	Due to (from) General Fund			23,930.60
Total			23,930.60	23,930.60
Adjusting Journal Entries JE # 12		PBC GF AJE #12		
To record recurring entry for Delmarva Power invoices				
9030021	Municipal St Aid Expenditures		910.84	
9030020	Municipal St Aid Grant (Restr)			910.84
Total			910.84	910.84
Adjusting Journal Entries JE # 13		PBC GF AJE #13		
To adjust police pension related items				
1002095	Employee Salary Receivable		335.94	
2000011	Life Insurance Payable		15.10	
2010040	Police Pension Payable		5,150.14	
2000013	Employee Salary Payable			661.21
6010210	Misc			986.45
6020191	Pension			3,853.52
Total			5,501.18	5,501.18
Adjusting Journal Entries JE # 14		PBC GF AJE #14		

Client: **134400.0 - Town of Dewey Beach, Delaware**
 Engagement: **2017AU - Town of Dewey Beach**
 Period Ending: **3/31/2017**
 Trial Balance: **General Fund**
 Workpaper: **AJE - GF - AJE Report**

Account	Description	W/P Ref	Debit	Credit
To reclass expenditures from streets to flood mitigation				
9030051	Flood Mitigation Expense		50,000.00	
9030041	Other Streets Expense			50,000.00
Total			<u>50,000.00</u>	<u>50,000.00</u>
Adjusting Journal Entries JE # 15			PBC GF AJE #15	
To record/reclassify additional expenditures				
6030130	Building Maintenance & Supplies		47.25	
9030041	Other Streets Expense		9,100.00	
20000	Accounts Payable			4,147.25
9500118	Approved FY17 Budget Amendments			5,000.00
Total			<u>9,147.25</u>	<u>9,147.25</u>

Client: **134400.0 - Town of Dewey Beach, Delaware**
Engagement: **2017AU - Town of Dewey Beach**
Period Ending: **3/31/2017**
Trial Balance: **Beach Replenishment Fund**
Workpaper: **AJE - BRF - AJE Report**

Account	Description	W/P Ref	Debit	Credit
Adjusting Journal Entries JE # 1		BRF AJE#1		
To clear out "due to GF" account				
201200	Amt Due General Fund		100.00	
66900	Reconciliation Discrepancies			100.00
Total			<u>100.00</u>	<u>100.00</u>
Adjusting Journal Entries JE # 2		10-03		
To adjust beach tax receivable to actual				
101090	Beach Tax Receivable		14,138.20	
402000	Beach Tax Revenues			14,138.20
Total			<u>14,138.20</u>	<u>14,138.20</u>
Adjusting Journal Entries JE # 3		10-03		
To adjust deferred beach tax revenue to actual				
402000	Beach Tax Revenues		14,147.68	
203000	Property Tax - Def Rev			14,147.68
Total			<u>14,147.68</u>	<u>14,147.68</u>
Adjusting Journal Entries JE # 4		10-03		
To record beach tax receipts incorrectly recorded as accommodations tax				
101080	Due From General Fund		23,930.60	
402000	Beach Tax Revenues			23,930.60
Total			<u>23,930.60</u>	<u>23,930.60</u>