

Town of Dewey Beach, Delaware

Management Letter

March 31, 2019

PRELIMINARY DRAFT -
SUBJECT TO CHANGE

September 12, 2019

To: The Members of the Audit Committee
Carroll County, Maryland

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the Town of Dewey Beach, Delaware (the "Town") as of and for the year ended March 31, 2019, 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. Accordingly, we do not express an opinion on the effectiveness of the County's internal control. We refer you to our Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards dated (REPORT DATE). In the course of the audit, CohnReznick did become aware of matters that are an opportunity for strengthening internal controls and operating efficiency.

CohnReznick offers the following comments for your review and consideration. We appreciate the courtesies extended to us during our engagement by the Town's personnel and look forward to a continued mutually beneficial relationship.

Accounting Handbook

During the course of our audit, we noted a lack of formal written policies and procedures for many of the Town's processes. While we do not believe the lack of formal documented policies and procedures inhibited our ability to report on the Town's financial statements as a whole, we believe many processes could be significantly improved to further enhance the accuracy and timeliness of financial reporting. A written set of policies and procedures can also provide transparency and clarity to the business processes for all Town employees, and provide for smooth transitions as employees exit employment or are newly hired. We recommend the Town develop and implement formal policies and procedures as soon as possible and no later than March 31, 2020. We recommend that the following be considered as part of this process:

- The Town's Policy and Procedures manual should be provided to all employees and located in a place that all employees are aware.
- Whenever there are changes of substance to the manual, they should be communicated to all employees that could be impacted.
- For all processes the custody, recordation, authorization (approval) and reconciliation functions of the transaction should be segregated. We also believe the Town should document, for Town management purposes, its internal risk assessment of each process, and where this segregation is deemed not possible, the mitigating controls should be documented.
- The Town should consider digitalizing all documents that relate to Town's finances, such as cash collection logs. The process manual should consider the reconciliation process of the Town's daily revenue to the Town's financial records. Consideration should be given to reporting capabilities of the Town's software packages. One example is the Town's use of its software as it relates to code enforcement, and the reports that may be utilized to reconcile code infraction assessments vs. cash

receipts. Similarly, we believe a substantial risk to a Town whose revenue streams are comprised of a significant number of one time or non-recurring transactions, coupled with limited staff and formal processes, is for transactions to be unreported or underreported. The Town's policies and procedures, including mitigating controls, should give special attention to mitigating the opportunity for theft or preferential adjustment to Town charges.

- For all processes, the Town should give consideration to the audit trail of the transaction. This includes documentation of authorization (review/approval). During the course of our audit, we observed instances where the policies that were in practice were not consistently adhered to.
- The Policies and Procedures manual should include policies and procedures that enable the Town to minimize the opportunity for fraud, waste and abuse to occur.
- Formal policies and procedures should be developed for when employment of Town employees is discontinued (whether full time, part time or seasonal). The policy should include responsibilities in obtaining the return of Town equipment, supplies, credit cards and other assets.
- For all Policies and Procedures, whether included in a handbook, in Town code, or elsewhere, a review of the documents should be done to ensure nothing is contradictory or left to interpretation. The review should be documented and performed periodically. During the course of our audit, we were made aware of Investment Policies that were an approved product of the Investment Committee that may contradict information within the Town's Charter. In addition to reviewing all documents for consistency, we recommend it be formally clarified what documents take precedence in an instance where there is inconsistency.

Management Response:

Fund Balance

Currently the Town does not have a formal policy on fund balance. The Government Finance Officer's Associate ("GFOA") recommends municipalities establish a formal policy. There are many factors to consider in establishing a policy and we recommend the Town consult GFOA published best practices regarding the formation of this policy.

Management Response:

Vendor Payments

During the course of our audit we were made aware, through inquiry and observation, of situations where vendor payments were delinquent. In multiple cases, the payments were delinquent to the extent that the Town's ability to utilize the respective services was cancelled / held. We recommend the Town consider processes to ensure timely vendor payments when developing its policy and procedures manual, keeping in mind the need for strong segregation of duties.

Management Response:

IT Environment

We noted several matters related to the Information Technology (IT) design and controls for management's consideration to ensure a secure and effective technological environment:

- Management has not prepared a written IT risk assessment. Without a written IT risk assessment, management may overlook IT threats, underestimate risks, and fail to implement appropriate controls. An IT risk assessment should incorporate the various areas specified in the COSO Internal Control framework:
 - Reliance on systems or programs that are inaccurately processing data, processing inaccurate data, or both;
 - Unauthorized access to data that may result in destruction of data or improper changes to data, including the recording of unauthorized or nonexistent transactions or inaccurate recording of transactions;
 - Unauthorized changes to data in master files;
 - Unauthorized changes to systems or programs;
 - Failure to make necessary changes to systems or programs;
 - Inappropriate manual intervention;
 - Potential loss of data;
 - Estimating the significance of the risk;
 - Assessing the likelihood (or frequency) of the risk occurring
 - Considering how the risk should be managed—that is, an assessment of what action needs to be taken.
 - An estimation of the magnitude of losses (or impact) related to the risk.
- Password security policies do not conform to industry acceptable practices, and should be enhanced to conform to a more robust password policy. Failure to require periodic changes in passwords by all users jeopardizes the secure access by authorized individuals to the Town's network and systems.
- Management has not prepared and documented plans for disaster recovery and back-up. Without these plans, activities may be performed inconsistently and may be insufficient to prevent unauthorized changes, unauthorized disclosure or destruction of financial information.

- We recommend management consider a cybersecurity assessment be performed to evaluate aspects of network vulnerability to unauthorized activity, which might include, but are not limited to, employee security training and an external penetration test. In the event of a breach of the Town's systems, the Town may lack the resources to investigate and take legal action against a guilty party.

Management Response:

Payroll

During the course of our audit, we were made aware through inquiry and observation, that the payroll for the public safety department is not reviewed and approved by a department supervisor. We recommend the payroll be reviewed and approved by a department supervisor before it is processed, including documentation of the review.

Management Response:

We observed that the employees' vacation and sick leave accruals are not reviewed by management. During the fiscal year adjustments to employee vacation and sick leave were required for errors noted in prior years' tracking. Additionally, as part of our audit, adjustments were required to March 31, 2019 balances due to overstated accruals for all employees. We recommend that policies and procedures in regards to the tracking of and accrual of employee vacation and sick time be improved in conjunction with the implementation of the Town's policy and procedures manual, including periodic review and approval by Town management.

Management Response:

Further, it was observed that different departments within the Town employ varying levels of precision in time tracking and reporting. We recommend the Town revisit its time tracking policies for all departments, including reviewing the practices with the Town solicitor and contracted HR specialist. We recommend the policies be formalized within the Town's policy and procedures manual.

Management Response:

Deferred Compensation Plan

Government Accounting Standards Board Statement (GASB) 84 – Fiduciary Activities is effective for reporting periods beginning after December 15, 2018. Additionally, the GASB has a current project related to deferred compensation plans that is currently in the Exposure Draft comment period, and may have an impact on the Town's financial reporting. We recommend that the Town review its plan documents, consider the impact of new reporting and disclosure requirements on the Town's financial statements and document its policies and procedures relating to all aspects of the 457 plan.

Management Response:**Non-Financial Assets**

During the course of our audit we were made aware, through inquiry and observation, of instances where the town has non-financial assets that are not tracked, nor were they consistently physically secured. While these items primarily would not meet the Town's capitalization policy, we recommend the Town consider implementing an inventory system of its non-financial assets, such as equipment acquired through the LESO program or employee computers. The Town's procedures should include a policy under which the non-financial assets is periodically inventoried. The Town should also include policy as to how these non-financial assets should be secured with consideration of utilizing security cameras.

Management Response:**Fundraising**

During the course of our audit, we were made aware, through inquiry, of instances where Town employees participate in fundraising activities for the Town, without compensation. We recommend the Town review this practice with the Town Solicitor to ensure it is in line with all labor laws. We also recommend the Town's written policies and procedures address fundraising practices.

Management Response:**Whistleblower Protection Policy**

During the course of our audit, we were made aware of the Town's Whistleblower Protection Policy dated November 10, 2018. Based on our interviews of Town employees, and experience in the industry, we recommend the Town revisit its policy, giving specific consideration to the reporting procedures prescribed and considering the use of an outside vendor to manage any complaints or concerns. In addition, we recommend the Town include the policy on the Town's website to allow for a safe, confidential and secure way to report concerns.

Management Response:

Management's response was not subjected to the auditing procedures applied in the audit of financial statements and, accordingly, we express no opinion on it. This letter is intended solely for the information and use of the Town's management, the Audit Committee and the Town Council and is not intended to be and should not be used by others.

Very truly yours,

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