

Recommendations from the Audit Report Regarding Internal Controls and Accounting Processes

Beginning on page 45 of the audit report and page 1 of the management letter, the auditors provide several findings and recommendations related to internal controls and the lack of an accounting procedures handbook. These findings were not discussed in the Commissioners' adoption of the audit report, but nevertheless deserve attention and focus. The auditor's report and the status of the Town's accounting processes raise several questions for consideration by the Commissioners:

- Is the reliance on outside accounting services an appropriate and successful strategy for satisfying the Town's accounting needs?
- Should the Town hire a full-time or part-time Finance Director?
- Is there an appropriate and effective combination of outside services and in-house Finance Director without adding significantly to the cost associated with accounting for Town funds?
- What are the budget implications for appropriately addressing the auditor's concerns regarding internal controls, timely financial reporting, and documentation of accounting processes?
- If outside services are continued, should the Town seek a different vendor?

Background

The auditors state that in their opinion the financial statements for FY2019:

“present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Town of Dewey Beach, Delaware as of March 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.”

This is an important and essential finding from the auditor's review of the Town's financial condition. The auditors also provided some additional important findings regarding the accounting processes used by the Town that warrant discussion. They note that there is a lack of “appropriately designed and documented internal control systems” and “appropriately designed and documented accounting policies and procedures.” As a result:

- “The ability for the Town to prevent or detect material misstatements to the financial statements or the misappropriation of assets is substantially inhibited.”
- “The lack of properly designed and documented accounting policies and procedures has resulted in financial reporting that is not performed timely, leading to the Town not being able to meet its financial reporting requirements as designated in its Charter.

Additionally, the Town's ability to provide reliable interim financial reports is inhibited by current accounting practices.”

- “Management may produce interim and annual financial statements that are materially misstated.”

The auditors recommend that the Town hire a Finance Director or similar individual to address these issues.

Prior to the FY 2018 audit, Commissioners approved the use of an outside accounting firm in lieu of replacing the Town’s Finance Director. When Commissioners voted to accept the FY 2018 audit report at the August 10, 2018 meeting, they voted unanimously to direct the Town Manager to review and take appropriate action relative to recommendations by the former auditors, the TGM Group. Commissioners asked the Town Manager to:

- Revisit the Council’s decision to engage an accounting firm rather than hiring a Finance Director to ensure timely, accurate, and transparent financial reporting and make recommendations as appropriate.
- Develop a formal accounting procedures and policy handbook to include at a minimum specific focus on internal controls, including those related to cash and property/capital assets.

More than a year later, the new auditors found the same lingering deficiencies in the Town’s accounting processes that had prompted the August 10, 2018 motion by the Commissioners. In management’s responses to the findings and recommendations in the audit report and management letter, the Town supports the hiring of a part-time Finance Director. The auditor’s findings and the Town’s response raise several questions for Commissioners’ consideration as noted above.