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May 26, 2020

To Mayor and Town Council  
Town of Ocean View, Delaware  
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Ocean View, DE 19970

**PKScpa.com**

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*MEMBERS OF:*

*AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS*

*MARYLAND ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS*

*DELAWARE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS*

*ALLIANCE GLOBAL*

The following represents our understanding of the services we will provide Town of Ocean View, Delaware.

You have requested that we audit the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Ocean View, Delaware, as of April 30, 2020, and for the year then ended and the related notes to the financial statements, which collectively comprise Town of Ocean View, Delaware's basic financial statements as listed in the table of contents. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on each opinion unit.

Accounting standards generally accepted in the United States of America, (U.S. GAAP), as promulgated by the Governmental Accounting Standards Board (GASB) require that Management's Discussion and Analysis, budgetary comparison information, and required pension schedules as listed below be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America, (U.S. GAAS). These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by U.S. GAAP. This RSI will be subjected to certain limited procedures but will not be audited:

- 1) Management's Discussion and Analysis.
- 2) Budgetary comparison schedule – general fund
- 3) Budgetary comparison schedule – general fund by department
- 4) Schedule of Town's proportionate share of net pension liability
- 5) Schedule of Town's pension contributions

### **Auditor Responsibilities**

We will conduct our audit in accordance with U.S. GAAS. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements.

An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements. If appropriate, our procedures will therefore include tests of documentary evidence that support the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of cash, investments, and certain other assets and liabilities by correspondence with creditors and financial institutions. As part of our audit process, we will request written representations from your attorneys, and they may bill you for responding. At the conclusion of our audit, we will also request certain written representations from you about the basic financial statements and related matters.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements (whether caused by errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations) may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and Government Auditing Standards.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the basic financial statements that we have identified during the audit. Our responsibility as auditors is, of course, limited to the period covered by our audit and does not extend to any other periods.

We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the basic financial statements are other than unmodified, we will discuss the reasons with you in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or to issue a report as a result of this engagement.

## **Compliance with Laws and Regulations**

As previously discussed, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of Town of Ocean View, Delaware's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

## **Other Services**

We will also assist in preparing the financial statements and related notes of the Town in conformity with U.S. generally accepted accounting principles based on information provided by you. In addition, we will maintain the depreciation schedules for the Town based on information provided by management and Town personnel. These nonaudit services do not constitute an audit under *Government Auditing Standards* and such services will not be conducted in accordance with *Government Auditing Standards*.

With respect to any nonattest services we perform, the Town's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities.

*Government Auditing Standards* require that we document an assessment of the skills, knowledge, and experience of management, should we participate in any form of preparation of the basic financial statements and related schedules or disclosures as these actions are deemed a non-audit service.

## **Management Responsibilities**

Our audit will be conducted on the basis that management and those charged with governance acknowledge and understand that they have responsibility:

- a. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
- c. To provide us with:
  - i. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
  - ii. Additional information that we may request from management for the purpose of the audit; and
  - iii. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- d. For including the auditor's report in any document containing financial statements that indicates that such financial statements have been audited by the entity's auditor;

**Management Responsibilities (continued)**

- e. For identifying and ensuring that the entity complies with the laws and regulations applicable to its activities; and
- f. For adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the current year period(s) under audit are immaterial, both individually and in the aggregate, to the financial statements as a whole.
- g. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets.

As part of our audit process, we will request from management and those charged with governance written confirmation concerning representations made to us in connection with the audit.

**Reporting**

We will issue a written report upon completion of our audit of Town of Ocean View, Delaware's basic financial statements. Our report will be addressed to the governing body of Town of Ocean View, Delaware. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraph(s), or withdraw from the engagement.

We will also provide a report (that does not include an opinion) on internal control related to the financial statements and compliance with the provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements as required by *Government Auditing Standards*. The reports on internal control and on compliance and other matters will include a paragraph that states (1) that the purpose of the report is solely to describe the scope of testing of internal control and compliance, and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control on compliance, and that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The paragraph will also state that the report is not suitable for any other purpose. If during our audit we become aware that the Town of Ocean View, Delaware is subject to an audit requirement that is not encompassed in the terms of this engagement, we will communicate to management and those charged with governance that an audit in accordance with U.S. generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* may not satisfy the relevant legal, regulatory, or contractual requirements.

**Other**

We understand that your employees will assist in locating any documents selected by us for testing.

If you intend to publish or otherwise reproduce the basic financial statements and make reference to our firm, you agree to provide us with printers' proofs or masters for our review and approval before printing. You also agree to provide us with a copy of the final reproduced material for our approval before it is distributed.

**Other (continued)**

The audit documentation for this engagement is the property of PKS & Company, P.A. and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to an oversight committee or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, audit documentation will be provided under the supervision of PKS & Company, P.A. personnel.

The audit documentation for this engagement will be retained for a minimum of five years after the report release date or for any additional period requested by the oversight committee. If we are aware that a federal awarding agency or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

By your signature below, you acknowledge and agree that upon the expiration of the five year period PKS & Company, P.A. shall be free to destroy our records related to this engagement.

**Provisions of Engagement Administration, Timing and Fees**

During the course of the engagement, we may communicate with you or your personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

Michael C. Kleger, CPA is the engagement partner for the audit services in this letter. His responsibilities include supervising PKS & Company's services performed as part of this engagement and signing or authorizing another individual to sign the audit reports.

Our fee for the audit will be \$19,500, for the year ended April 30, 2020.

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. In accordance with our firm policies, work may be suspended if your account becomes 60 days or more overdue and may not be resumed until your account is paid in full. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

During the course of the audit we may observe opportunities for economy in, or improved controls over, your operations. We will bring such matters to the attention of the appropriate level of management, either orally or in writing.

**Provisions of Engagement Administration, Timing and Fees (continued)**

Should any litigation or adverse action (such as audits by outside organizations and/or threatened litigation, etc.), by third parties arise against the Town of Ocean View, Delaware or its officers subsequent to this engagement, which results in the subpoena of documents from PKS & Company, P.A. and/or requires additional assistance from us to provide information, depositions or testimony, the Town of Ocean View, Delaware hereby agrees to compensate PKS & Company, P.A. (at our standard hourly rates) for additional time charges and other costs (copies, travel, etc.), and to indemnify us for any attorney's fees to represent PKS & Company, P.A.

If any dispute arises among the parties hereto, the parties agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its Rules for Professional Accounting and Related Services Disputes before resorting to litigation. The costs of any mediation proceeding shall be shared equally by all parties.

Client and accountant both agree that any dispute over fees charged by the accountant to the client will be submitted for resolution by arbitration in accordance with the Rules for Professional Accounting and Related Services Disputes of the American Arbitration Association. Such arbitration shall be binding and final. In agreeing to arbitration, we both acknowledge that, in the event of a dispute over fees charged by the accountant, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury and instead we are accepting the use of arbitration for resolution.

At the conclusion of our audit engagement, we will communicate to those charged with governance the following significant findings from the audit:

- Our view about the qualitative aspects of the entity's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;
- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

**Impact of COVID-19 on Audit**

While the full impact of COVID-19 is unknown and uncertain, please be advised that additional planning and procedures related to assessing the impact and implications may require our firm to spend additional time in the performance of the services contemplated under this and any previous agreement. For example, COVID-19 restrictions on movement may result in difficulties for management to provide certain information or unrestricted access to persons within the entity. In addition, if management had changes in internal control procedures and process flows due to personnel working remotely during the pandemic, we may not be able to rely on controls and may have to increase substantive testing.

Other areas possibly requiring additional time and testing include:

- Accessing books and records
- Confirming accounts
- Performing subsequent event procedures
- Financial statement impact and disclosures related to COVID-19
- Payroll Protection Program (PPP) loans, and other Federal and State grants or loans
- Impact on Single Audits, if applicable, as a result of inflow of Federal funds

By your signature below, you understand that there may be additional testing required to address COVID-19 issues. Prior to any testing, PKS & Company, P.A. and the Town will discuss the required scope of additional and mutually agree upon additional fees related to that testing, if any.

We appreciate the opportunity to be of service to the Town of Ocean View, Delaware and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

*PKS & Company, P.A.*

**CERTIFIED PUBLIC ACCOUNTANTS**

**RESPONSE:**

This letter correctly sets forth the understanding of Town of Ocean View, Delaware.

Management signature: *Carey S Horch*

Title: *Town Manager*

Governance signature: *John J. Ruddy*

Title: *Mayor*