

**Town of Dewey Beach, Delaware**

**Management Letter**

**March 31, 2020**

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August 12, 2020

To: The Members of the Audit Committee  
Town of Dewey Beach, Delaware

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, 2020, 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 Town'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 August 12, 2020. 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.

### **Policies and Procedures Handbook**

During the course of our audit, we noted a lack of formal written policies and procedures for many of the Town's processes. In our letter dated October 23, 2019, we recommended the Town develop and implement formal policies and procedures as soon as possible and no later than March 31, 2020.

During our audit for the year ended March 31, 2020, we were made aware that a formal policies and procedures manual had not been adopted and distributed to employees. A written set of policies and procedures would enable the Town to strengthen its internal controls processes and add transparency and clarity to the business process for all Town employees. We recommend the Town develop and implement formal policies as soon as possible, and give consideration to the additional narrative provided in our letter dated October 23, 2019. Further, the items identified with the below-listed descriptions in our prior letter included recommendations for inclusion in the formal policy and procedures manual, and these remain valid recommendations of ours. Additionally we recommend the Town consider engaging a project manager to assist in the expediting and completion of this manual.

- Payroll - Approval
- Payroll - Compensated Absence Accrual
- Payroll - Time Keeping Policies
- Deferred Compensation Plan
- Non-Financial Assets
- Fundraising

## **Management Response**

Management agrees with CohnReznick's comments regarding a Policies and Procedures Handbook to memorialize policy designed to improve internal controls. Luff & Associates has submitted a draft Account Policies and Procedures Manual that is currently being reviewed by staff. Management will implement these policies and procedures no later than December 31, 2020. Any issues that require approval of the Town Commissioners will be submitted to the Commissioners for their consideration no later than March 31, 2021.

## **Fund Balance**

During the course of our audit, we were made aware that the Town adopted a fund balance policy, which was a recommendation from our prior audit. The fund balance policy includes terminology/applications that are not aligned with governmental accounting and generally accepted accounting principles. There are many factors to consider in establishing a policy and we recommend the Town consult GFOA published best practices regarding the formation of the policy and consider engaging with experts to formulate a comprehensive policy.

## **Management Response**

The Town adopted an Unrestricted Fund Balance Policy on February 8, 2020. A copy of the policy was provided to CohnReznick in mid-February at which time they expressed concerns regarding a full understanding of the requirements necessary to develop a comprehensive policy regarding this subject matter. Management fully supports continued efforts to develop a model policy for our Town using GFOA published best practices as a guide for the policy. This remains a complex issue that requires consideration of many financial and community factors. Staff, possibly with the assistance of a part-time Finance Director or other qualified professional, will continue efforts to develop a policy reflective of our community needs. A revised policy will be recommended no later than March 31, 2021.

## **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.

- The Town should periodically revisit whether password security policies conform to industry acceptable practices. 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

Management fully supports the creation of an IT risk assessment and a cybersecurity assessment. In February 2020, Management contacted one company to discuss these issues and ways to create deliverables that addressed the request. It was determined that our insurance carriers must also assist in this activity. In addition, the Commissioners approved a contract for Managed IT Solutions and Managed Security Solutions with ThinkSecureNet in October 2019. The Commissioners also authorized the replacement of thirteen (13) desktops and six (6) laptops in November 2019 to address hardware and operating system security issues. As indicated in the prior year's response, management considers this a multi-year effort. Due to the impact of COVID-19, we expect this issue to be addressed no later than September 30, 2021.

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,



CohnReznick LLP  
Baltimore, Maryland



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