

August 13, 2021

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, 2021, 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 our auditing procedures for the purpose of expressing our opinion 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 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. 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 13, 2021. Additionally, we identified certain matters involving the internal control and other operational matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. Our comments are summarized as follows:

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 August 12, 2020, we recommended the Town develop and implement formal policies and procedures as soon as possible and no later than March 31, 2021.

During our audit for the year ended March 31, 2021, 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 processes 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 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 recommendation to develop and implement formal policies and procedures no later than March 31, 2022. The process was hindered during fiscal year 2021 due to short staffing brought on by COVID-19 and being without a Town Manger from September 2020 through March 2021. Management has staff working on updating daily procedures with an internal deadline of August 31, 2021. Management is attempting to arrange for a third-party consultant to assist with the finalization of policies into an official handbook.

Fund Balance

In prior audits we provided recommendations surrounding the establishment of a formal written fund balance policy. On February 8, 2020 the Town established a policy and on May 14, 2021 revised the policy in a second document. We recommend that the Town document the full policy in one place and revisit the policy when they have hired a Finance Director to ensure the formal policy incorporates all the pertinent components of GASB 54. The final policy should include the Town's policies on how to apply resources when an expenditure can be funded by both restricted and unrestricted resources, as well as the policy if an expenditure can be funded using sources in different unrestricted categories (committed, assigned and unassigned fund balance).

Management Response

Management agrees that the formalized policy should be in one document for easy reference. Staff and Commissioners are working jointly on making sure the implementation of the policy is done accurately and is documented fully. The Town advertised, interviewed, and selected a financial manager during a process from February to March of 2021. Two weeks after committing to the position and a week before starting the selected individual withdrew from the position. The town will repost for the financial manager position in October 2021 with the goal of hiring in January of 2022.

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 unauthorized 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 understands the inherent risks and possible vulnerability of the town's current IT system. The process was hindered during fiscal year 2021 due to short staffing brought on by COVID-19 and being without a Town Manger from September 2020 through March 2021. Based on the audit's findings and recommendations the Staff and Management are searching for an IT security consultant who will mitigate and address vulnerabilities in the IT system by November of 2021.

We believe that the implementation of these recommendations will provide the Town with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you at your convenience.

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

Very truly yours,



CohnReznick LLP
Baltimore, Maryland