

[REPORT DATE]

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, 2022, 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 the 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 [report date]. During our prior year audit, we identified certain matters involving the internal control and other operational matters that we presented for your consideration in a letter dated August 13, 2021. In our letter we identified that we would review the status of these comments during our next audit engagement. Below are our observations during our current year engagement:

Policies and Procedures Handbook

During the course of our audit, management presented to us written formalized policies and procedures for the major business processes, such as the processes for receiving and disbursing funds, reconciling bank accounts and processing payroll, among others. Management noted that they were working with a consultant to assist with this process and are continuing to document other processes and policies.

Fund Balance

In our letter dated August 13, 2021 we recommended that the Town document their full fund balance policy to ensure it incorporated all components of GASB 54. The policy that we commented on, which was dated May 14, 2021, remains the policy in place. We continue to recommend that this policy be revisited. 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).

IT Environment

During the course of our audit, management informed us that during the year they contracted with an outside vendor to provide a full Security Risk Assessment (“SRA”). The vendor issued a report with findings which management is working with the vendor to address the issues and implement new protocols and procedures. We recommend that management outline the prioritization of each open finding and a timeline to address, ensuring that the timeline is responsive to the level of risk presented by each finding.

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

PRELIMINARY DRAFT
SUBJECT TO CHANGE