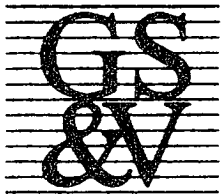


TOWN OF DAGSBORO
AGREED-UPON PROCEDURES ON MUNICIPAL GRANTS
FOR THE YEAR ENDED JUNE 30, 2008



GRABOWSKI, SPARANO & VINCELETTE

CERTIFIED PUBLIC ACCOUNTANTS
1814 NEWPORT GAP PIKE
WILMINGTON, DELAWARE 19808

TELEPHONE (302) 999-7300
TELEFAX (302) 999-7183

THOMAS J. GRABOWSKI, CPA
JOSEPH C. SPARANO, CPA
CHARLES J. VINCELETTE, CPA

MEMBER AMERICAN INSTITUTE OF CPA'S
DELAWARE SOCIETY OF CPA'S

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Town of Dagsboro
33134 Main Street
P.O. Box 420
Dagsboro, Delaware

We have performed the procedures enumerated below, which were agreed to by the Town of Dagsboro, State of Delaware's Office of the Auditor of Accounts, Department of Homeland Security, and the Office of the State Treasurer, solely to assist the specified parties with respect to determining the Town's compliance with Delaware's applicable laws, regulations, financial reporting and the effectiveness of the internal control structure related to the municipal grant funds received for the year ended June 30, 2008. The Town of Dagsboro's management is responsible for compliance with those requirements.

This agreed-upon procedures attestation engagement was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings were as follows:

1. Complete the State of Delaware Office of Auditor of Accounts municipal grants agreed-upon procedures program to determine the Town of Dagsboro's compliance with applicable laws, regulations and financial reports related to municipal grant funds received for the year ended June 30, 2008 and detail any instances of noncompliance.

The Town of Dagsboro received municipal grant funds under the following programs for the year ended June 30, 2008:

Municipal Street Aid
Police Pension
State Aid to Local Law Enforcement
Emergency Illegal Drug Enforcement

FINDING NO. 08-1 During completion of the Town of Dagsboro's program checklist for the municipal street aid grant, it was noted that their cash internal control structure over municipal street aid has no segregation of duties due to the lack of personnel which is a reportable internal control weakness that does not properly maintain and safeguard municipal street aid funds. The State of Delaware *Budget and Accounting Manual* Chapter II requires that the responsibility for a transaction or activity be divided among different parties so that no one employee has complete control over the processing of transactions. Segregation of duties reduces the risk that one person could perpetrate and/or conceal errors in the normal course of his/her duties. While ideal separation of duties is not always possible, an organization should strive to separate key functions and provide for increased oversight for the processing of transactions.

RECOMMENDATION The Town should attempt to segregate duties related to cash receipts and disbursements of Municipal Street Aid funds among different Town council members or employees so that additional controls over the Town's municipal grants can be established.

TOWN'S PLAN FOR CORRECTIVE ACTION

Currently the Town employs one full-time person and one part-time person in the administrative department, of which, only one of those employees is qualified to maintain the financial duties of the Town. With the economy as it is, the Town is not in the position to hire an additional qualified financial assistant. The mayor, however, is very much involved in the day-to-day financial operations of the Town and continually monitors the cash flows of the Town. Additionally, the town clerk does not have the authority to sign any business checks or paychecks, which the Mayor feels minimizes the possibility of fraudulent activity. When the Town is financially capable of hiring additional staff, our first priority will be segregation of duties related to the Town's funds.

FINDING NO. 08-2 During the completion of the Town of Dagsboro's program checklist for the Municipal Street Aid grant, it was noted that their financial documents and transactions were administered in accordance with the applicable laws and regulations, and that their annual report was submitted timely to the office of the State Treasurer, but the annual report was not accurately prepared or reviewed [30 Del. C. §5165(b)(2)]. The interest income earned in the amount of \$30.20 on the municipal street aid funds for the month of June, 2008, was inadvertently not included in the annual report, and therefore, interest income was understated by \$30.20 on the annual report and, consequently, the ending cash balance was understated by \$30.20 on the annual report. The accurate preparation of the annual report is an important requirement of the grant.

RECOMMENDATION The Town should more carefully prepare and review the amounts on the annual report to ensure an accurate presentation.

TOWN'S PLAN FOR CORRECTIVE ACTION

The Town will be sure to review the report for accuracy prior to the submission to the State.

FINDING NO. 08-3 During the completion of the Town of Dagsboro's program checklist for the municipal street aid grant, it was noted that a bill from Delaware Electric Cooperative for Municipal Street Aid Fund expenditures in the amount of \$162.40 was dated September 28, 2007, but due to administrative oversight, was not paid until November 1, 2007. 29 Del. C. §6516(d) states that invoices should be paid within thirty (30) days of receiving the invoice. Failure to comply with the provisions of guidelines relating to the administration of grant funds may affect future funding.

RECOMMENDATION The Town of Dagsboro should establish procedures to ensure that Municipal Street Aid Fund expenditures are paid in accordance with 29 Del. C. §6516(d).

TOWN'S PLAN FOR CORRECTIVE ACTION

During that time period, the Town was going through various administrative changes. This merely was an oversight and we will be sure that all bills are paid within the 30 day time period.

2. Address the status of any findings and recommendations disclosed in previous reports.

FINDING NO. 05-1 During completion of the Town of Dagsboro's program checklist for the municipal street aid grant, it was noted that their cash internal control structure over municipal street aid has no segregation of duties due to the lack of personnel. The Town Clerk controls all the cash functions for the Town, which is a reportable internal control weakness that does not properly maintain and safeguard municipal street aid funds. Segregation of duties reduces the risk that one person could perpetrate and/or conceal errors in the normal course of his/her duties.

CURRENT STATUS See finding No. 08-1.

FINDING NO. 05-2 During completion of the Town of Dagsboro's program checklist for the police pension fund grant, it was noted that the Town submitted the "Registration for Police Pension Fund Benefits" form to the State Treasurer 26 days late.

The Town must provide the previous calendar year information to the State on or

before April 1 [18 Del. C. §709(a)] in order to properly apply for police pension grant. Noncompliance with application deadlines could jeopardize the grant award to the Town.

CURRENT YEAR STATUS The "Registration for Police Pension Fund Benefits" form was timely filed.

FINDING NO. 05-3 During the completion of the Town of Dagsboro's program checklist for the Municipal Street Aid grant, it was noted that their financial documents and transactions were administered in accordance with the applicable laws and regulations, and that their annual report was submitted timely to the office of the State Treasurer, but the annual report was not accurately prepared or reviewed [30 Del. C. §5165(b)(2)]. The interest income earned on the municipal street aid funds was understated by \$67.97 on the annual report and the ending cash balance was understated by \$67.97 on the annual report. The accurate preparation of the annual report is an important requirement of the grant.

CURRENT YEAR STATUS See finding No. 08-2.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with specified laws. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Town of Dagsboro's management and council members, the State of Delaware's Office of Auditor of Accounts, Department of Homeland Security, and the Office of the State Treasurer and should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

*Grabowski, Sparano
& Vincalotte, CPAs*

Wilmington, Delaware
November 24, 2008