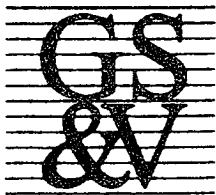


TOWN OF MIDDLETOWN
AGREED-UPON PROCEDURES ON MUNICIPAL GRANTS
FOR THE YEAR ENDED JUNE 30, 2008



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

Town of Middletown
19 West Green Street
Middletown, Delaware

We have performed the procedures enumerated below, which were agreed to by the Town of Middletown, 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 Middletown'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 Middletown'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 Middletown received municipal grant funds under the following programs for the year ended June 30, 2008:

Municipal Street Aid
Police Pension

FINDING NO. 08-1 During completion of the Town of Middletown's program checklist for the Municipal Street Aid grant, it was noted that a deposit of grant funds in the amount of \$84,201.02 was received by the bank four (4) days after the date indicated on the deposit ticket. 29 Del. C. §6103(a) requires that funds be deposited on the day of receipt or the following business day if received after the close of normal banking hours.

The Town received the funds and prepared a deposit slip on Friday, January 25, 2008. This time period was also a shut-off day for overdue utility billings due from residents. The Town's priority was to record and deposit payments related to shut-off situations, so the Municipal Street Aid fund check was in the safe, but not deposited until January 29, 2008.

Failure to timely deposit grant funds may affect future funding.

RECOMMENDATION The Town should initiate a policy to ensure that deposits of bank Municipal Street Aid funds are made within one (1) day of preparing the deposit ticket.

TOWN'S PLAN FOR CORRECTIVE ACTION

The Town of Middletown's Municipal Street Aid Procedures were updated 9 January, 2009 to comply with State Guidelines. Specifically, the procedures in Section III Receipts were revised with the following language:

The Town Clerk is responsible for preparing check deposits and depositing all MSA funding into the Town's depository institution within 24 hours of receipt of MSA funding. The receipt of MSA funding will be evidenced by date stamp.

The Financial Manager will review deposits to ensure compliance with the revised procedures.

FINDING NO. 08-2 During completion of the Town of Middletown's program checklist for the Police Pension Funds, it was noted that Schedule A, "Computation of Police Officers Registered For Police Pension Fund Benefits", required by 18 Del. C. §709(a), was completed incorrectly. The schedule requires reporting of *The Number of Police Officers employed 15 days or more during each month*. Two (2) months contained an error in calculating the number of police officers employed fifteen (15) days or more during the month. In both July, and September, officers not employed for fifteen (15) days or more were included in the schedule. The form was being filed for the first time by the Town and the errors were caused by administrative oversight. The errors did not, however, affect the calculation of the average number of paid, full-time, sworn officers employed during the year ended December 31, 2007. Failure to comply with the provisions of the Delaware Code relating to the administration of grant funds may affect future funding.

RECOMMENDATION The Town should initiate measures to ensure that all forms relating to grant funds be completed correctly.

TOWN'S PLAN FOR CORRECTIVE ACTION

The Financial Manager will correctly complete Schedule A "Computation of Police Officers Registered For Police Pension Fund Benefits" when the next Application for Benefits form is received from the State of Delaware this February 2009.

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

FINDING NO. 05-1 During completion of the Town of Middletown's program checklist for the municipal street aid grant, it was noted that their cash internal control structure over municipal street aid has a weakness due to the fact that there is no independent review of the bank account reconciliation. An independent review of the bank statement and reconciliation will improve the Town's cash internal control. 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 Procedures have been initiated to require review of the bank statement and reconciliation by a person other than the individual responsible for the bank reconciliation.

FINDING NO. 05-2 During completion of the Town of Middletown'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 financial report was submitted timely to the Office of the State Treasurer, but the financial report was not accurately prepared or reviewed [30 Del. C. §5165(b)(2)]. The beginning and ending cash balance was understated by \$.02 and \$.42, respectively, and the other expenditures overstated the net bank charges by \$.40. The accurate preparation of the annual report is an important requirement of the grant.

CURRENT YEAR STATUS The Municipal Street Aid Annual Report was accurately prepared for the current year.

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 Middletown'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
& Vincette, CPAs*

Wilmington, Delaware
January 7, 2009