

Herbert J. Geary III
Corey N. Duncan
Roy J. Geiser
Chris A. Hall
Ronald W. Hickman
Charles M. Meenehan
Craig A. Walter
Mark A. Welsh



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Town of Dewey Beach, Delaware
105 Rodney Avenue
Dewey Beach, Delaware 19971

TGM Group LLC ("TGM") has performed the procedures enumerated below, which were agreed to by the Audit Committee and Town Commissioners (the "Committees") for the Town of Dewey Beach, Delaware (the "Town"), as defined later in this letter. The Committees are responsible for the records. The sufficiency of these procedures is solely the responsibility of those Committees. 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.

AGREED-UPON-PROCEDURES

(As outlined in our engagement letter dated December 19, 2017)

Our focus will be on the last 5 years (beginning April 1, 2012 through the date of this letter) and the procedures will include:

1. We will examine documented internal controls, policies and procedures in relation to procurement within each department (administration, billing and finance, building official, parking/code enforcement, beach patrol, and police) in particular each department's use of programs like the Federal Surplus Property Program (FSPP) to acquire assets and any other activity that generates revenue for which the finance department does not maintain control.
2. An interview will be made of appropriate personnel. Those will include but are not limited to:
 - a. Marc Appelbaum - Immediate past Town Manager
 - b. Jim Dedes - Assistant Town Manager
 - c. Ashleigh Hudson - Town Clerk/FOIA Coordinator
 - d. Carolyn Elliott - Finance Director
 - e. Amy Brandt - Accountant
 - f. William Mears - Building Official
 - g. Merle Leonard - Parking/Code Enforcement Supervisor

- h. Todd Fritchman – Lifeguard Captain
- i. Christopher Muscara – Lifeguard Lieutenant
- j. Michael Thompson – Lifeguard Lieutenant
- k. Ryan Nowakowski – Lifeguard Lieutenant
- l. John (Ben) Thornes – Lifeguard Lieutenant
- m. Brian Misciwowski – Lifeguard Lieutenant
- n. Sam Mackert – Police Chief
- o. John Hocker – Police Lieutenant
- p. Clifford Dempsey – Police Sergeant

3. The interviews will include the following inquiries:

Since April 1, 2012 through the date of this interview,

- a. Are you aware of the use of the Federal Surplus Property Program or donations (or other programs of the like)?
 - i. If “Yes” please describe, provide a summary schedule of items acquired and/or be ready to discuss in our follow-up interview.
 - b. Are you aware of the use of “off” balance sheet items (i.e. departmental checking accounts and/or grants) in which the finance department does not maintain control (i.e. receive the bank statement and reconcile accounts)?
 - c. Do you have any other items you believe we should consider?
 - d. Is there anyone else we should be talking to?
4. Other such evidence gathering procedures as deemed necessary under the circumstances.
- a. Obtain compliance requirements and/or contracts related to the FSPP.
 - b. Obtain proof of ownership of property acquired / obtained under the FSPP.
 - c. Insurance considerations related to property acquired / obtained under the FSPP.
 - d. Obtain copies of “off” balance sheet bank statements, if any and signature cards.
 - e. Valuation of assets sold.
 - f. Who assumed the repairs and storage cost?

STATEMENTS OF DISCOVERY

The following is a summary of information obtained, based on the interviews performed:

- 1. During our examination, we discovered that the Federal Surplus Property Program (FSPP) the Dewey Beach Police Department (“DBPD”) participates in is administered by the Defense Logistics Agency (“DLA”) and is known as the Law Enforcement Support Office (“LESO”) program.
- 2. The DLA facilitates the LESO program on behalf of the Department of Defense (“DOD”). The LESO program allows the transfer of excess DOD property to Law Enforcement Agencies (“LEA”) across the United States. The DLA signs a Memorandum of Agreements (“MOA”) with each State. Each State has a State

Coordinator who works directly with the LEA. In summary the transfer of information is as follows: DLA to State to LEA.

3. Summary of LESO program general guidelines.
 - a. Cannibalization requests for controlled property must be submitted in writing to the State, with final approval by the LESO. The LESO will consider cannibalization requests on a case-by-case basis.
 - b. The LESO conditionally transfers all excess DOD property to States/LEAs enrolled in the LESO program. Title or ownership of controlled property will remain with the LESO in perpetuity and will not be relinquished to the LEAs. When the LEA no longer has legitimate law enforcement uses for controlled property, the LEA must notify the State, who will then notify the LESO, and the controlled property must either be transferred to another enrolled LEA (via standard transfer process) or returned to DLA Disposition Services for disposal. The LESO reserves the right to recall controlled and non-controlled property issued through the LESO Program at any time.
 - c. Property with a DEMIL Code of "A" is also conditionally transferred to the LEA. However, after one year from the Ship Date, the LESO will relinquish ownership and title to the LEA. Prior to this date, the State and LEA remains responsible for the accountability and physical control of the items(s) and the LESO retains the right to recall the property.
 - i. Property with DEMIL Code of "A" will automatically be placed in an archived status on the LEAs property book upon meeting the one year mark.
 - ii. Once archived, the property is no longer subject to annual inventory requirements and will not be inventoried during a LESO Program Compliance Review (PCR).
 - iii. Ownership and title of DEMIL "A" items that have been archived will pass automatically from the LESO to the LEA when they are archived at the one year mark (from Ship Date) without issuance of any further documentation.
 - iv. LEAs receive title and ownership of DEMIL "A" items as governmental entities. Title and ownership of DEMIL "A" property does not pass from DOD to any private individual of LEA official in their private capacity. Accordingly, such property should be maintained and ultimately disposed of in accordance with provisions in State and local law that govern public property. Sales or gifting of DEMIL "A" property after the one year mark in a manner inconsistent with State or local law may constitute grounds to deny future participation in the LESO Program.
 - d. The LEAs are not authorized to transfer controlled property or DEMIL Code "A" property carried on their inventory without LESO notification and approval. Property will not physically move until the State and LESO approval process is complete.

- e. Per the DLA Instructions and Manuals and the DLA MOA, each State and participating LEA within is required to conduct an annual inventory certification of controlled property, which includes DEMIL “A” for one (1) year from Ship Date.
 - f. All costs associated with the transportation, turn in, transfer, repair, maintenance, insurance, disposal, repossession or other expenses related to property obtained through the LESO Program is the sole responsibility of the LEA.
 - g. The State/LEA is required to maintain adequate insurance to cover damages or injuries to persons or property relating to the use of property issued under the LESO program.
 - h. Funds generated by sale of LESO property must be documented and used for law enforcement purposes by the LEA.
 - i. Acquisition costs shown are the cost of a single item paid at the time of its last purchase and *do not represent the value of equipment today*.
4. We were able to obtain, directly from the LESO program, a detailed listing of property transferred to the DBPD which continues to be monitored by the State agencies and included in the annual inventory review report submitted to the DLA. This report is maintained on-line and updated frequently. *NOTE: this report does not include DEMIL Code Property A which have been held for one year and the property has been transferred to the DBPD. These items are systematically archived and are no longer required to be included in the annual inventory review.*
 5. We have reviewed the annual “Memorandum for the Delaware State Coordinator” noting acknowledgement by the DLA, completion of the annual inventory for the years ended 2012-2017. This indicates that the annual inventory certification of controlled equipment has been completed as per program guidelines.
 6. The DBPD has disposed of archived DEMIL Code A LESO property as follows:
 - a. Sold at auction.
 - b. Sold via sealed bids.
 - c. Given in exchange for services (barter/exchange).
 - d. Sold to individual, without formal bid process.
 - e. Scrapped / recycled.
 7. The DBPD charged “regular” repairs on LESO property to the general operating account. Other repairs were charged to the DBPD account.
 8. Lyons Companies insurance agency handle insurance policy and needs.
 - a. We were able to obtain from Lyons Companies a summary listing of the auto and in-land marine policies for years 2014 – 2018 which includes property descriptions.

9. Liability insurance is obtained on LESO property temporarily when items are being transported and/or in-use.
10. The Town has recently leased property in Lewes Delaware to store some LESO property – internally referred to as the “bullpen”.
 - a. NOTE: these items were previously stored at various locations, including but not limited to town property and personal residence/property.
11. Other individuals identified for possible interviews:
 - a. Joyce Pool – Administrative Assistant
 - b. Nancy McCloskey – former director of finance.
 - c. Diane Hanson – former mayor and commissioner.
 - d. Mary Dunmyer – former director of special projects.
12. Lifeguards obtain monies through various fundraisers (examples include 5k run/walk and beach access donations).
13. Lifeguards receive donation from individuals and businesses. These donations can be cash and/or equipment (example includes Utility Task Vehicle “UTV”)

FINDINGS AND RESULTS

1. The DBPD actively participates in the LESO program.
2. To date no archived DEMIL Code A LESO property have been recorded and capitalized by the Town.
3. Various off the books barter/exchange transactions have occurred with archived DEMIL Code A LESO property obtained.
4. The Town has no documented internal control, policies and procedures with regard to the LESO program and/or the handling of lifeguard donations.
5. Some of the monies received/obtained by the DBPD are deposited into one of the accounts below, which are managed by the finance department:
 - a. SALLE grant account.
 - b. EIDE grant account.
 - c. Police Department account.
 - d. Fed Confiscated funds account.
6. Some of the monies received/obtained by the DBPD were retained in a safe within the DBPD. Recently these monies were given to the finance department with a cash receipts/disbursement log.

7. Monies received/obtained by lifeguards are given to the Captain, then deposited into one of the accounts below, two of which are recorded by the Town's finance department, while one is not:
 - a. General Beach Patrol – Recorded by the Town's finance department.
 - b. Junior Lifeguard / youth recreation programs – Recorded by the Town's finance department.
 - c. Dewey Beach Patrol Competition Team – off-balance sheet EIN #16-0538020.
 - i. The Lifeguard department was unable to supply form 1023 IRS acceptance letter of tax exempt status and the IRS has no record of the Dewey Beach Patrol Competition Team account's tax exempt status.
8. As per the agreed-upon-procedures defined above, despite multiple attempts, TGM tried to contact the following seasonal personnel, and was unable to setup an interview:
 - a. Christopher Muscara – Lifeguard Lieutenant
 - b. Ryan Nowakowski – Lifeguard Lieutenant
 - c. Brian Misciwojewski – Lifeguard Lieutenant

RECOMMENDATIONS AND COMMENTS:

NOTE: It is important to note that the Statements of Discovery and Findings and Results reported above were obtained through inquiry only. The Phase 1 agreed-upon-procedures, as defined above, were developed and agreed to in an attempt to be "information gathering" procedures. Limited collaborative evidence was obtained with regard to those findings and results.

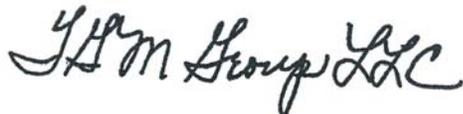
We view the items discussed above as opportunities to strengthen your internal controls surrounding financial reporting, in particular related to cash and capital asset management.

1. We recommend hiring a highly-trained in-house financial manager or consider contracting with a third party accounting function, with the goal in mind to have timely, accurate and transparent financial reporting.
2. We recommend developing a formal accounting policy and procedures handbook. Considerations should be given but not limited to the following:
 - a. Internal controls surrounding cash.
 - b. Internal controls surrounding Property / Capital Assets.
 - c. Cease the use of barter/exchange transactions.
3. We recommend the following with regard to the cash accounts
 - a. Ensure compliance with SALLE and EIDE grant bank accounts.
 - b. Examine the cash receipts and disbursement log obtained from the Police Department for the monies held in the safe.
 - c. Gain an understanding of the need and use of the Police Department safe for financial purposes.

- d. Obtain account reconciliations and examine a sample of cash receipts and disbursements from the Dewey Beach Patrol Competition Team – off-balance sheet EIN #16-0538020.
 - i. The Town Council should ensure that the Dewey Beach Patrol Competition Team account be under the control of the Town as there was no proof given and the IRS has no record of its tax exempt status.
4. We recommend the following for Property / Capital Assets:
 - a. Perform a physical count of the DEMIL Code A LESO property on hand to ensure completeness of the capital asset listing and consider capitalizing property consistent with the capitalization policy currently in place by the Town.
 - b. Perform a physical count of the Lifeguard property on hand to ensure completeness of the capital asset listing and consider capitalizing property consistent with the capitalization policy currently in place by the Town.
 - c. To ensure completeness of the capital asset listing, attempt to reconcile Lyons Companies summary listing of the auto and in-land marine policies to capital asset records of the Town.
 - d. Perform procedures to determine fair market value and useful life of DEMIL Code A LESO property and/or donated property received.
 - e. Confirm with the auction company, a comprehensive listing of disbursements from the sale of Town assets and reconcile with Town records.

This agreed-upon procedures report was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the accounting records. Accordingly, we do not express such an opinion or conclusion. 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 Committees and is not intended to be and should not be used by anyone other than those specified parties.



TGM Group LLC
Salisbury, MD
March 9, 2018