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**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***

The Honorable Governor and Honorable Members of the State Legislature
State of Delaware, Department of Transportation
Dover, Delaware:

We have audited the financial statements of the State of Delaware Department of Transportation (the Department), which is an Enterprise Fund of the State of Delaware, as of and for the year ended June 30, 2010, and have issued our report thereon dated November 29, 2010. The financial statements present only the Department and do not purport to, and do not present fairly the financial position of the State of Delaware, as of June 30, 2010, and the changes in the financial position for the year then ended in conformity with U.S. generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting 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 Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying schedule of findings and responses as item 2010-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented



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or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Department's response to the finding identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Department's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the State of Delaware Secretary of Transportation, management, Office of the Governor, Attorney General, Comptroller General, Office of Management and Budget, Department of Finance and the U.S. Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 29, 2010

STATE OF DELAWARE DEPARTMENT OF TRANSPORTATION

Schedule of Findings and Responses

Year ended June 30, 2010

2010-1. Financial Reporting

Prior Year Observation

The Department has contracted for the past several years with an outside CPA firm to compile its financial statements for the Transportation Trust Fund, for the Delaware Transit Corporation, and for the consolidated Delaware Department of Transportation entity.

The process used to obtain the necessary information for balances outside of the Transportation Trust Fund is not clearly documented, does not occur on a clear timetable, and relies heavily on one individual to provide information requested by the contractor for compilation purposes. Financial statement items impacted include receivables, payables, and capital assets, including infrastructure assets.

There is no independent review of the information for completeness, accuracy, and conformity with generally accepted accounting principles prior to its being provided to the contractor, increasing the risk of potential undetected misstatements, errors, or omissions.

Additionally, as the State of Delaware is a complex organization with a significant amount of transactions occurring between State agencies, accounting for these transactions requires constant communication between agencies in order to properly record the financial position of each agency. During the completion of the prior fiscal year audit, it was noted that the Office of Management and Budget (OMB) removed building improvement costs recorded on its books related to a building belonging to the Department. These costs have been capitalized on the books of the OMB – Facilities Management many years ago. The transfer of such costs was not timely communicated to the Department and as such a corresponding entry to record the transfer was not recorded on the 2009 financial statements. Additionally, we noted delays in gathering the information to make a determination as to the appropriate pollution remediation obligation to record on the Department's financial statements in conjunction with the adoption of GASB Statement 49, which also appeared to result from a lack of timely communications between State agencies.

Current Year Status

Although the timing of completion of tasks improved through more active monitoring, there is still significant reliance on one key individual and dependence on timely communication between State agencies. Information for other post employment benefits and pollution remediation obligation was not available timely from other State agencies.

Recommendation

We recommend that the Department develop, for the 2011 audit cycle, the following:

- A detailed list of balances (other than those in the Transportation Trust Fund) and what detailed reports, supporting schedules, and other documentation are needed to support the compilation of financial statements and disclosures related to those balances
- A specific timetable of when each of the detailed reports, supporting schedules, and other documentation will be completed
- Interim review process to evaluate data before year end to identify any issues and correct them before year end close, including communicating with other State agencies with whom the Department may have transactions that require additional accounting considerations

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- A periodic monitoring process to ensure adherence to the timetable

We further recommend that the Department consider whether the current level of staffing is appropriate to:

- Disperse responsibility for specific reports, schedules and documentation to others within the accounting function
- Provide for an independent review of information for completeness, accuracy and conformity with generally accepted accounting principles prior to its receipt by the compilation contractor
- Review data throughout the year for completeness and accuracy

Management's Response

Management acknowledges the fact that the task associated with organizing and managing the details and reports for this audit are complex and detailed, and that communications between State agencies could be improved. The current level of staff continues to be a major problem for this effort. Unfortunately, a continued restriction to adding new full time employees (FTE's) to the operating budget has impeded the efforts to provide support to the current effort. Management will continue to explore opportunities for improvements in this area.