STATE OF DELAWARE
Basic Financial Statements
June 30, 2013
(With Independent Auditors' Reports Thereon)

STATE OF DELAWARE

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Honorable Governor and
Honorable Members of the State Legislature
State of Delaware

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (the State), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Delaware State Housing Authority (DSHA), Delaware State University (DSU), Delaware Charter Schools, Riverfront Development Corporation (RDC), and Diamond State Port Corporation (DSPC) within the aggregate discretely presented component units. The financial statements of DSHA, DSU, RDC, DSPC and the Delaware Charter Schools were audited by other auditors whose reports thereon have been furnished to us and which represent 89% of total assets, 80% of total net position and 93% of total revenues within the aggregate discretely presented component units. Our opinions, insofar as it relates to the amounts included for those entities, are based solely on the reports of the other auditors.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware, as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Change in Accounting Principle Resulting from the Adoption of a New Accounting Pronouncement

As discussed in Note 1 to the financial statements, effective July 1, 2012, the State adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. Our opinion is not modified with respect to this matter.

Delaware State Housing Authority

As discussed in Notes 1 and 21 to the financial statements, the Delaware State Housing Authority, a discretely presented component unit, restated its net position as of July 1, 2012 to correct a material misstatement in the amount previously reported. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information as listed in the accompanying table of contents (collectively referred to as RSI) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2014 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

KPMG LLP

Philadelphia, Pennsylvania
February 6, 2014

STATE OF DELAWARE
Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's (the State's) financial activities as of and for the fiscal year ended June 30, 2013. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages i-vi of this report, and the State's financial statements, which follow this section.

These financial statements have been prepared using the financial accounting model adopted by the Governmental Accounting Standards Board (GASB).

Financial Highlights

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by $4,877.2 million (net position). Component units reported a net position of $1,109.3 million, an increase of $27.4 million from the previous year as restated.

- As a result of its operations, the primary government's total net position increased by $68.9 million (1.4%) in fiscal year 2013 when compared to the previous year's ending net position as restated. Net position of governmental activities decreased by $74.1 million (4.2%) from the previous year, while net position of the business-type activities increased $143.1 million (4.7%) from the previous year.

- The State's governmental funds reported combined ending fund balances of $1,902.9 million, an increase of $74.1 million (4.1%) in comparison with the restated prior year balance.

- The general fund reported unassigned fund balance of $1,025.3 million which was 23.6% of total general fund expenditures.

- The State's total general obligation debt increased $58.4 million (3.5%) during fiscal year 2013 to $1,755.2 million. Of the State's outstanding general obligation debt, $545.7 million (31.1%) has been issued on behalf of local school districts, which is supported by the property tax revenues of those districts. In addition, the State has $1,063.3 million in outstanding revenue bonds with $56.2 million for energy conservation projects and $1,007.1 million for transportation projects.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information and other supplementary information, in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the State's operations, in a manner similar to a private sector business.

The statement of net position reports the difference between the State's assets, deferred outflows, liabilities, and deferred inflows as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event that created the change occurs, regardless of the timing of related cash flows. As a result, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include general government, health and children's services, judicial and public safety, natural resources and environmental control, labor and education. The business-type activities of the State include transportation, lottery and unemployment services.

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State is financially accountable. These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University, the Delaware Agricultural Lands Preservation Foundation and 22 charter schools. Financial information for these component units is reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 19 - 20 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- *Governmental Funds* Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund financial statements focus on near-term inflows and

outflows of available resources, as well as on balances of available resources on hand at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The State's governmental funds include the general, federal, local school district, and capital projects funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance (deficit) for these funds.

The basic governmental funds financial statements can be found on pages 21 - 24 of this report.

The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or the Special Fund. References to these funds in this report include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State adopts an annual appropriated budget for its budgetary general fund. A budgetary comparison schedule has been provided for the budgetary general fund to demonstrate compliance with the budget. The schedule can be found on page 117 of this report.

- *Proprietary Funds* Proprietary Funds charge customers for the services they provide – whether they are provided to outside customers (enterprise funds) or other State agencies and other governments (internal service funds). Proprietary Funds provide the same type of information as the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the Lottery, Unemployment Insurance Trust Fund and the Delaware Department of Transportation (DelDOT), all of which are considered to be major funds of the State.

  The basic proprietary fund financial statements can be found on pages 25 - 27 of this report.

- *Fiduciary Funds* The State acts as a fiduciary to account for resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State of Delaware's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. These funds are used where the State holds assets in trust or as an agent for others, including the pension trust funds and agency funds.

The basic fiduciary fund financial statements can be found beginning on pages 28 – 29 of this report. The combining fiduciary and agency fund statements can be found on pages 127 - 131.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32 - 113 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain Required Supplementary Information (RSI) concerning the status of the State's legally adopted budget, the maintenance of the State's infrastructure and additional schedules related to funding status and progress, annual pension costs and actuarial methods and assumptions for the State's pension and OPEB trusts. The RSI can be found on pages 115 - 125 of this report.

Statewide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's assets exceeded its liabilities by $4,877.2 million at the close of the most recent fiscal year.

The largest portion of the State's net position of 99.3% reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related outstanding debt used to acquire those assets. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net position, comprising 11.7% of total net position, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion of the State's net position represents the unrestricted deficit net position (11.0%).

Condensed Financial Information - Primary Government
As of June 30, 2013
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Non-capital Assets	$ 3,091,193	$ 2,930,951	$ 492,035	$ 542,418	$ 3,583,228	$ 3,473,369
Capital Assets	3,548,331	3,630,903	4,155,114	4,034,852	7,703,445	7,665,755
Total Assets	6,639,524	6,561,854	4,647,149	4,577,270	11,286,673	11,139,124
Liabilities:						
Long-Term Liabilities Outstanding	4,039,786	3,734,563	1,171,349	1,232,755	5,211,135	4,967,318
Other Liabilities	906,117	845,643	292,250	304,045	1,198,367	1,149,688
Total Liabilities	4,945,903	4,580,206	1,463,599	1,536,800	6,409,502	6,117,006
Net Position:						
Net Investment in Capital Assets	1,701,366	1,851,218	3,142,841	2,956,316	4,844,207	4,807,534
Restricted	408,694	519,836	163,539	169,954	572,233	689,790
Unrestricted deficit	(416,439)	(389,406)	(122,830)	(85,800)	(539,269)	(475,206)
Total Net Position	* $ 1,693,621	$ 1,981,648	$ 3,183,550	$ 3,040,470	$ 4,877,171	$ 5,022,118

*The State implemented GASB Statement No. 61 during fiscal 2013. The provisions of GASB Statement No. 61 required the State to reevaluate its component units. The Delaware Agricultural Lands Preservation Foundation which was previously a blended component unit is now considered a discretely presented component unit. Therefore, the State's governmental activities net position as of July 1, 2012 has been restated. Fiscal 2012 amounts for governmental activities reported above have not been restated to reflect this change.

The capital assets of the governmental activities decreased by $82.6 million (2.3%) since June 30, 2012. The decrease is the result of decreased land easements in the amount of $213.4 million due to a restatement of net position with the implementation of Governmental Accounting Standards Board (GASB) Statement No. 61. The land easements are now recorded by a discretely presented component unit, the Delaware Agricultural Lands Preservation Foundation on page 30. These decreases are offset by increases in construction in progress and other depreciable assets as a result of significant renovations to, and expansions of, existing school buildings across all counties to accommodate the rise in student population.

The increase in governmental activities non-capital assets is due to an increase in cash and investments due to an increase in business and real estate tax revenues along with increases in charges for services.

The increase in governmental activities long-term liabilities outstanding of $305.2 million (8.2%) is primarily due to an increase in the other post employment benefits liability and bonds payable. At June 30, 2013, the long-term obligation for OPEB was $1,682.0 million, an increase of $185.5 million (12.4%) from fiscal year 2012. The OPEB obligation will increase each year as the State continues to defer full funding of its annual required contribution. Additional information for the OPEB obligation can be found in Note 14 of the financial statements.

In addition, the general obligation long term debt increased by $58.6 million (3.5%) from fiscal year 2012. The State's debt as a percentage of the State's personal income was 7.8% in fiscal

year 2012 and 7.3% in fiscal year 2013. The State's debt burden reflects its centralized role in financing facilities, such as schools and prisons.

The following condensed financial information is derived from the government-wide Statement of Activities and reflects the changes in net position during the fiscal year:

Changes in Net Position - Primary Government
For Year End June 30, 2013
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program Revenues:						
Charges for Services	$ 559,213	$ 421,594	$ 1,205,519	$ 1,285,907	$ 1,764,732	$ 1,707,501
Operating Grants and Contributions	1,551,954	1,541,931	72,517	109,037	1,624,471	1,650,968
Capital Grants and Contributions	-	-	211,245	199,214	211,245	199,214
General Revenues:						
Taxes:						
Personal Income Taxes	1,130,501	1,126,014	-	-	1,130,501	1,126,014
Business Taxes	2,051,071	1,834,684	-	-	2,051,071	1,834,684
Real Estate Taxes	504,620	473,351	-	-	504,620	473,351
Other Taxes	217,880	241,525	-	-	217,880	241,525
Investment Income (Loss)	11,636	32,849	(608)	4,029	11,028	36,878
Gain on Sale of Assets	-	-	1,018	308	1,018	308
Miscellaneous	25,244	24,103	-	-	25,244	24,103
Total Revenues	6,052,119	5,696,051	1,489,691	1,598,495	7,541,810	7,294,546
Expenses:						
General Government	543,931	654,311	-	-	543,931	654,311
Health and Children's Services	2,428,629	2,386,475	-	-	2,428,629	2,386,475
Judicial and Public Safety	711,361	660,053	-	-	711,361	660,053
Natural Resources and Environmental Control	147,733	161,354	-	-	147,733	161,354
Labor	69,226	79,706	-	-	69,226	79,706
Education	2,408,647	2,372,080	-	-	2,408,647	2,372,080
Interest Expense	54,969	61,111	-	-	54,969	61,111
Lottery	-	-	358,467	386,241	358,467	386,241
Transportation/DelDOT	-	-	580,392	641,850	580,392	641,850
Unemployment	-	-	169,508	247,932	169,508	247,932
Total Expenses	6,364,496	6,375,090	1,108,367	1,276,023	7,472,863	7,651,113
Increase (Decrease) in Net Position Before Transfers	(312,377)	(679,039)	381,324	322,472	68,947	(356,567)
Transfers	238,244	287,903	(238,244)	(287,903)	-	-
Increase (Decrease) in Net Position	(74,133)	(391,136)	143,080	34,569	68,947	(356,567)
Net Position - Beginning of Year As Restated	* 1,767,754	2,372,784	3,040,470	3,005,901	4,808,224	5,378,685
Net Position - End of Year	$ 1,693,621	$ 1,981,648	$ 3,183,550	$ 3,040,470	$ 4,877,171	$ 5,022,118

*The State implemented GASB Statement No. 61 during fiscal 2013. The provisions of GASB Statement No. 61 required the State to reevaluate its component units. The Delaware Agricultural Lands Preservation Foundation which was previously a blended component unit is now considered a discretely presented component unit. Therefore, the State's governmental activities net position as of July 1, 2012 has been restated. Fiscal 2012 amounts for governmental activities reported above have not been restated to reflect this change.

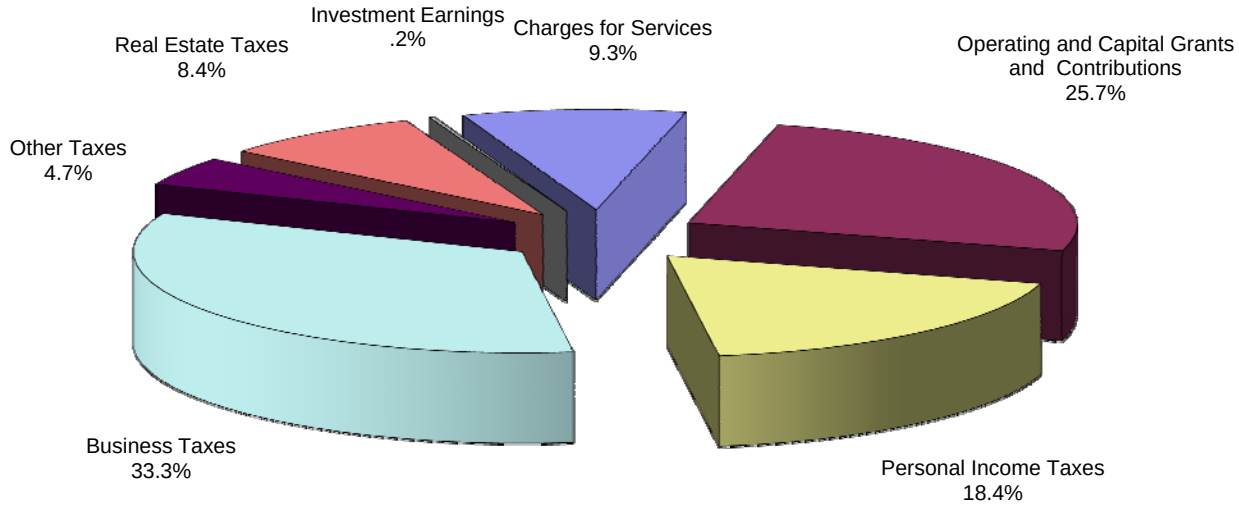
Governmental Activities

Since fiscal year 2012, the net position for governmental activities has decreased by $74.1 million. A comparison of the cost of services by function for the State's governmental activities is shown in the following chart, along with the revenues used to cover the net expenses of the governmental activities. Key elements of the decrease in the State's net position from governmental activities are as follows:

Total general revenues of governmental activities increased overall by $208.4 million (5.6%) relating to increases in business taxes of $216.4 million and real estate taxes of $31.3 million. There was a decrease in investment income of $21.2 million (6.5%). The increases in tax revenues were primarily attributable to overall improvements in the economy and successful tax audits resulting in increased business tax revenue. The decrease in investment income is due to decreased market gains in the current year.

Program revenues increased by $147.6 million (7.5%) from the prior year due to an increase in charges for services of $137.6 million (32.6%) resulting from increases in licenses, fees, permits and fines and rentals and sales from the Department of Natural Resources and Environmental Control and the Department of Agriculture. Also, operating grants increased by $10.0 million (0.6%) compared to the prior fiscal year, since Health and Social Services received additional funding of $103.8 million (9.9%) due largely to increased Medicaid funds and Education received $65.5 million (20.5%) less in operating grants due mainly to the end of ARRA funding.

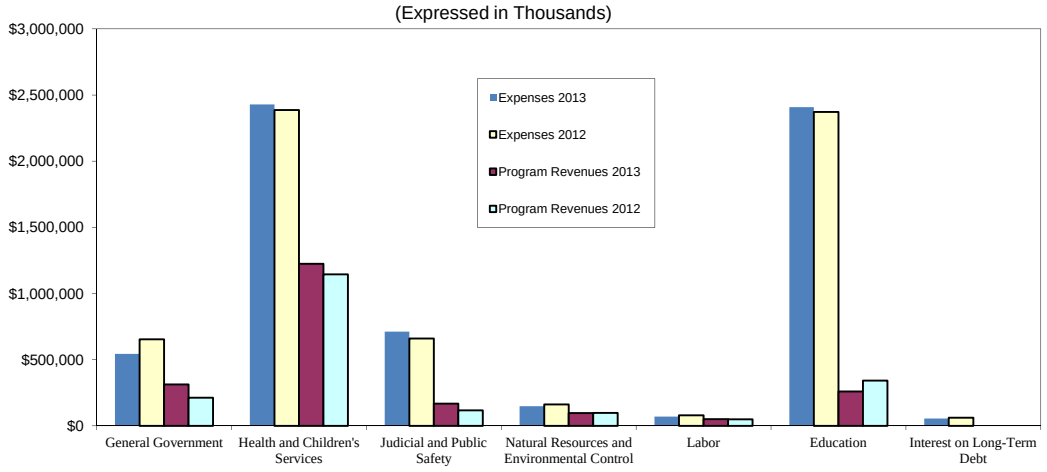
Revenues by Source – Governmental Activities



Expenses for governmental activities decreased during fiscal year 2013 by $10.6 million (0.2%). The decrease in governmental activities is due in part to the decreased spending of $110.4 million (16.9%) for the general government due to organizations identifying alternative funding sources for expenditures. This is offset by increased spending of $42.1 million (1.8%) at Health and Children's Services as a result of a general increase in the

population served and rising health care costs and in educational expenses of $36.5 million (1.5%) due to the continued increase in student population resulting in additional personnel and other operating costs.

Expenses and Program Revenues- Governmental Activities



Business-type Activities

The net position for business-type activities increased by $143.1 million (413.6%) in fiscal year 2013. This increase is comprised of a $130.3 million (273.2%) increase in net position for DelDOT plus a $12.8 (197.7%) million increase in the Unemployment Insurance Trust Fund.

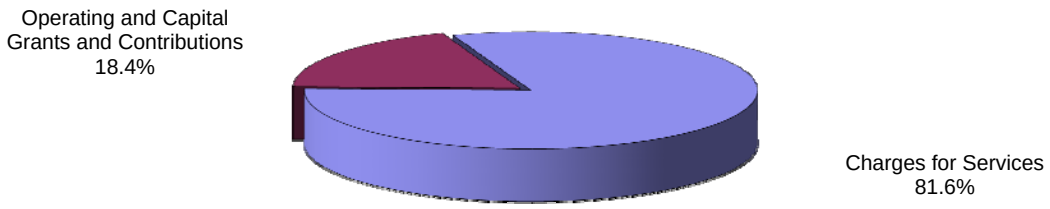
The increase of $12.8 million in Delaware Unemployment Insurance Trust Fund net position is due to a decreased demand in benefits paid by the Trust Fund. The operating revenues (charges for services and operating grants) and operating expenses decreased by $51.3 million (22.2%) and $78.3 million (31.9%), respectively due to decreases in the benefits paid with improvements in the economy and less individuals unemployed and collecting benefits. Change in net position increased from a decrease of $13.1 million in 2012 to the increase of $12.8 million in 2013.

DelDOT's net position at June 30, 2013 was $130.3 million higher than at June 30, 2012. Change in net position increased from $47.7 million in 2012 to $130.3 million in 2013. DelDOT's total operating revenues increased by $13.3 million (2.9%) while operating expenses decreased by $58.6 million (9.8%). The change is primarily attributable to an increase in toll revenues and an increase in motor vehicle and related revenues as a result of increased auto sales. The decrease in operating expenditures is primarily due to decreased capital preservation. In addition, capital contributions increased by $12.0 million (6.0%) due to increased federal capital grants.

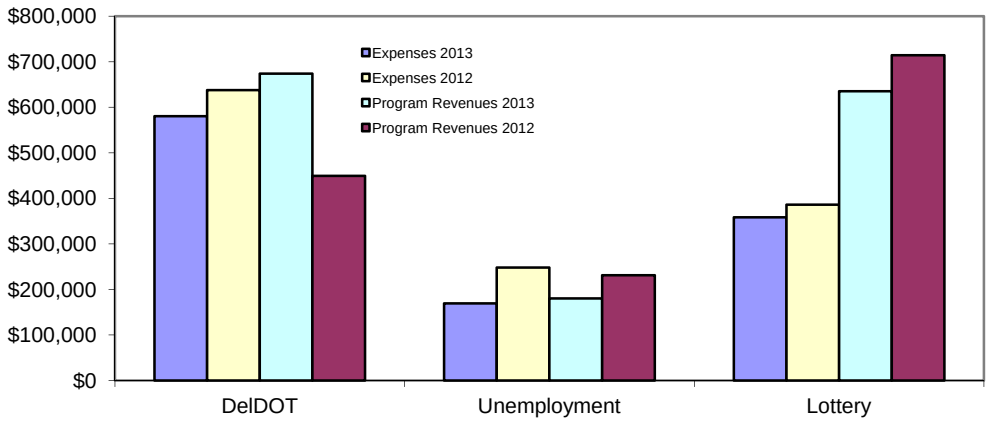
There was no change in the Lottery's net assets. By law, the Lottery's net assets cannot exceed $1.0 million. Revenue for the Lottery decreased by $79.0 million (11.1%) over last year mainly due to increased competition from casinos operating in Maryland and

Pennsylvania. The Lottery transferred $276.8 million in gaming revenues to the State, a decrease from fiscal year 2012 of $51.3 million (15.6%). The total costs of games and prizes decreased by $27.8 million (7.4%) over the previous year due to the decrease in video lottery activity.

Revenues by Source – Business-type Activities



Expenses and Program Revenues – Business-type Activities



Financial Analysis of the State's Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the State's financing requirements. Unassigned fund balances may serve as a useful measure of a government's net resources at the end of the fiscal year.

Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. This is further described in note 1 and note 16 of the basic financial statements.

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $1,902.9 million, an increase of $74.1 million over the prior year fund balance as restated.

Of this amount, $7.7 million is nonspendable (.4%), either due to its form or legal constraints, $569.7 million (29.9%) is restricted for specific programs by external constraints and $209.5 million (11.0%) is committed for specific purposes pursuant to constraints imposed by a formal action of the Delaware Legislature. An additional $91.6 million (4.8%) has been assigned to specific purposes by management. The remaining $1,024.4 million (53.9%) of fund balance is unassigned.

General Fund

The General Fund accounts for the operation and administration of the State. Total general fund balance increased by $52.1 million for the fiscal year.

Total General Fund revenues increased by $258.4 million (6.7%) due to several factors. The main increases were in personal taxes, which increased by $35.0 million and business taxes, which increased by $239.6 million. This was partially due to increased effort with enforcement efforts and an increase in business profits. These increases were offset by a decrease in investment income of $20.6 million due to decreased market gains.

Total General Fund expenditures increased by $96.0 million (2.3%). This was primarily due to increases in Health and Children's Services of $12.3 million, Department of Natural Resources and Environmental Control of $27.6 million, Public Safety of $58.1 million, Education of $125.3 million and debt services costs of $21.2 million offset by a decrease of expenditures in the General Government of $150.9 million due to organizations identifying alternative funding sources for expenditures. The increase in expenditures for Health and Children's Services, Public Safety, Education, and Natural Resources and Environmental Control, were attributable to an increase in services and for Health and Children's Services a decrease in federal coverage for the Medicaid program.

At the end of the current fiscal year, unassigned fund balance of the general fund was $1,025.3 million, while total fund balance reached $1,448.5 million.

Federal Funds

Federal Funds represent pass through grants used for designated purposes. These funds report federal grant revenues and the related expenditures to support the State's grant programs. Total federal fund expenditures increased by $19.3 million. Expenditures increased for Health and Children's Service by $82.2 million due largely to increased Medicaid expenditures and

decreased for General Government and Education by $14.3 million and $40.3 million, respectively. The General Government decrease is due to decreased funding for agricultural and energy related programs and the Education decrease is due to decreased funding for Title I and Special Education programs.

Local School District Funds

These funds are used to account for activities relating to the State's local school districts, which are funded by locally raised real estate taxes and other revenues. The fund balance decreased by $12.1 million to $294.3 million due to an increase of expenditures to serve the increasing population.

Capital Project Funds

Capital Project Funds are used to account for the construction and acquisition of capital assets of the primary government. Capital outlay expenditures totaled $226.1 million in fiscal year 2013, an increase of $38.4 million.

Proprietary Funds

The State's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail. The Proprietary Fund financial statements provide separate information for the Lottery, Unemployment Insurance Trust Fund and the DelDOT Fund, all of which are considered to be part of the primary government and major funds of the State.

Total Proprietary Fund net position increased in fiscal year 2013 by $143.1 million as a result of operations. Page 11 discusses the changes in net position of the business-type activities.

General Fund Budgetary Highlights

The Budgetary General Fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance increased by $71.2 million.

Revenues were $370.5 million (11.0%) more than the previous fiscal year. This was primarily due to increases in the corporate income tax of $68.8 million (57.7%), abandoned property of $252.7 million (84.1%), corporate and partnership fees of $20.3 million (8.1%) and realty transfer tax of $10.7 million (33.7%). The $252.7 million increase in abandoned property was the result of increased enforcement efforts and an audit of transfer agents to ensure inactive accounts are timely reported to the State. Offsetting these revenue increases were decreases in gross receipts tax of $10.8 million (4.7%) bank franchise tax of $8.4 million (7.7%), and insurance tax of $8.0 million (14.2%).

Expenditures were $66.3 million (1.8%) more than the previous fiscal year. Salaries and wages increased by $8.2 million (0.6%) and pension costs increased by $19.1 million (7.5%). Grants-in-Aid increased by $8.7 million (2.4%), contractual services increased by $28.9 million (6.3%) and capital outlays increased by $3.3 million (20.0%).

The original budget authorizes current fiscal year operating and administrative expenditures. Included in the final budget are the original budget, prior year encumbrances, multi-year project budgetary carry-forwards from the prior fiscal years, and all modifications to the original budget. The most significant components are the original budget and carry-forwards of prior fiscal year. The unused appropriations from a prior year will carry forward to the final budget for authorized capital projects and grants until the funds are spent.

Where actual expenditures were within the final budget in departments, the significant budget variance was $25.4 million in the Executive Department for funds budgeted, but not spent on ongoing capital improvement projects, technology projects, and contingency items. Business taxes were $35.9 million less than budgeted due in large part to refunds that were in excess of budgeted amounts. Other revenues, which are mainly licenses and fees, were $34.6 million more than budgeted as the budgeted refunds for these revenues were less than expected.

Funded projects, which are not completed by year-end, may carry over unspent funds into fiscal year 2014. Unspent funds are reflected in the final budget which may cause variances from original budget.

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2013, amounted to $7,703.4 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total decrease in capital assets for governmental activities was $82.6 million (2.3%) and the increase for business-type activities was $120.3 million (3.0%).

Major capital asset changes during the current fiscal year included the following:

- The decrease in governmental activities is due to the implementation of GASB 61 which decreased easements reported by a newly identified discretely presented component unit that was previously blended, offset by increases for the continued completion of school renovations,
- The increase in business-type activities is due to increased spending at DelDOT for the Turnpike/SR-1 interchange and the US 301 projects.

As allowed by GASB, the State has adopted an alternative process for recording expense related to selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 4,378 center line miles of roads and 1,601 bridges that the State is responsible to maintain.

DelDOT performs condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every two years. Historically, road condition assessments were conducted every year. The Department's assessment plan will

ensure that all infrastructure assets are assessed and evaluated within the three-year period, as required. Due to timing of these conditions assessments, information for the fiscal year ended June 30, 2013 is not available for all assessments.

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition.

Of the State's 1,601 bridges that were rated in fiscal year 2013, 71.9% received a good or better Bridge Condition Rating (BCR) rating, 20.9% were rated fair, and 7.2% received a substandard rating. Of the 7,614,980 square feet of bridge deck that was rated, 91.4% or 6,956,457 square feet received an Overall Pavement Condition (OPC) condition rating of good or better, 8.5% received a fair rating, and 0.1% received a substandard deck rating. In 2011, 4,378 center line miles were rated; 95.8% received a fair or better OPC rating and 4.2% received a poor rating.

The fiscal year 2013 estimate to maintain and preserve DelDOT's infrastructure was $185.4 million, but the actual expenditures were $233.8 million, which is $48.4 million over the estimate. The estimated expenditures represent annual budget or bond bill authorizations and the actual expenditures represent the current year spending, which includes cumulative authorizations.

Additional information on the State's capital assets can be found in Note 1 on pages 46 - 47, Note 12 on pages 86 - 88 and starting on page 120 in the Required Supplementary Information.

A summary of the State's primary government's capital assets, net of depreciation is provided below:

State of Delaware Capital Assets as of June 30, 2013
Net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	$ 459,587	$ 447,812	$ 283,876	$ 276,761	$ 743,463	$ 724,573
Land Improvements	153,346	155,604	-	-	153,346	155,604
Buildings	2,422,593	2,416,856	75,271	73,724	2,497,864	2,490,580
Easements	79,750	291,105	-	-	79,750	291,105
Equipment, Vehicles and Computer Software	73,869	74,743	122,577	117,533	196,446	192,276
Infrastructure	-	-	3,670,250	3,564,347	3,670,250	3,564,347
Construction-In-Progress	359,186	244,783	3,140	2,487	362,326	247,270
Total	$ 3,548,331	$ 3,630,903	$ 4,155,114	$ 4,034,852	$ 7,703,445	$ 7,665,755

Long-Term Debt

The State uses general obligation debt to finance capital projects. At the end of the current fiscal year, the State had total general obligation bond debt outstanding of $1,755.2 million backed by the full faith and credit of the State. The State's debt burden reflects its centralized role in

financing school construction projects. As of June 30, 2013, $545.7 million, or 31.1%, of the State's outstanding debt was issued on behalf of local school districts. Local school districts transferred $64.3 million of property tax revenue to the State to cover related debt service during fiscal year 2013**.**

The State has no constitutional debt limits. However, in 1991, the State enacted legislation that limits debt issuance with a three-part test as follows:

- A 5% test restricts new debt authorization to 5% of budgetary general fund revenue as projected by DEFAC in June for the next fiscal year. Should actual revenue collections increase during the year, no additional authorizations are made. For fiscal year 2013, debt issuance was limited to $187.0 million.
- A 15% test restricts debt issuance if the annual payments on all outstanding debt exceed 15% of estimated budgetary general fund and Transportation Trust Fund Revenue for the next fiscal year. Currently, these annual payments represent approximately 8% of estimated general fund and Transportation Trust Fund revenues.
- Finally, a cash balance test restricts debt issuance if the debt service payment in any year exceeds the estimated cumulative cash balance for the following fiscal year. For fiscal year 2013, the projected cash balance exceeded debt service.

Due to the State's statutory debt limits and its fiscal management, three principal rating agencies, Moody's Investor's Service, Fitch Ratings and Standard & Poor's, reaffirmed their triple-A ratings on the State's general obligation bonds during fiscal year 2013. On February 28, 2013, the State issued $336.3 million of its general obligation bonds maturing between February 1, 2014 and February 1, 2033. Of the $336.3 million issued as Series 2013, $111.3 million was issued to refund higher priced bonds resulting in a net present value savings of $14.4 million, or 11.7% of the principal refunded.

In addition, the Sustainable Energy Utility, Inc. had $56.2 million of Revenue Bonds, Series 2011 outstanding as of June 30, 2013. These bonds were used to support general government initiatives and have been used to finance construction on energy efficient upgrades to facilities in the State. As such, that debt is reflected in the primary government statements as governmental activities. The bonds are secured by appropriations of the state agencies that are participating in the SEU program.

Debt issued by the Delaware Transportation Authority does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenues, motor vehicle document fees and motor vehicle registrations. The Delaware Transportation Authority has revenue bonds outstanding of $923.8 million to support its ongoing capital transportation program and $99.7 million in Grant Anticipation Vehicle Bonds (GARVEEs), to finance a portion of the costs of completing the final design and right-of-way acquisition for a new U.S. 301.

Additional information on the State of Delaware's long-term debt can be found in Notes 5, 6 and 7 on pages 69 - 83 of this report.

Financial Management

The State's financial management continues to be recognized by a premier credit rating from all three principal rating agencies: Aaa from Moody's Investor's Service, AAA from Fitch Ratings and AAA from Standard & Poor's. The ratings reflect Delaware's financial management practices that have become institutionalized within the State:

- expenditure budgeting of 98% of available budgetary general fund revenue;
- budgetary general fund revenue forecasts that are frequent, objective and often conservative;
- three-part debt affordability test that limits debt authorization to 5% of budgetary general fund; revenue and debt service to 15% of tax supported revenue; and cash balance test;
- consistent satisfaction of the State's budget reserve requirement – the State's rainy day fund has never fallen below its mandated 5% of general fund revenue; and
- full funding of its pension plan.

Economic Factors and Next Year's Budgets and Rates

DEFAC met on June 17, 2013 to prepare the final revenue and expenditure estimates upon which the fiscal year 2014 operating and capital budgets would be based. The most recent employment data for the State of Delaware has indicated improvement in the labor market; therefore, the FY 2014 forecast anticipates small growth. There is an assumption in the forecast that the scheduled expiration of tax cuts in 2014 will occur.

The fiscal year 2014 operating and capital budgets meet budgetary spending limitations imposed by law. The fiscal year 2014 operating budget is $3,718.2 million, 5.0% more than fiscal year 2013. The fiscal year 2014 operating budget included $60.9 million in supplemental appropriations (historically in the form of cash allocated to the capital budget), a decrease of 53.7% over the fiscal year 2013 budget.

Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance, Division of Accounting, 820 Silver Lake Boulevard, Suite 200, Silver Lake Plaza, Dover, Delaware 19904 or visit our website at http://accounting.delaware.gov.

The State's component units publish their own separately issued audited financial statements. These statements may be obtained from their respective administrative offices.

STATE OF DELAWARE
STATEMENT OF NET POSITION
JUNE 30, 2013
(Expressed in Thousands)

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and Cash Equivalents (Note 2)	$ 42,200	$ 101,122	$ 143,322	$ 52,741
Cash and Pooled Investments (Note 2)	1,798,727	6,353	1,805,080	71,115
Receivables, Net (Note 3)	642,990	98,408	741,398	333,448
Interfund Balances (Note 4)	(2,201)	2,201	-	-
Deferred Bond Issuance Costs	5,796	2,381	8,177	9,544
Inventories	7,681	18,425	26,106	867
Prepaid Items	-	4,356	4,356	5,067
Escrow Insurance Deposits	-	182	182	-
Investments	158,909	78,455	237,364	724,065
Other Assets	-	2,447	2,447	1,019
Restricted Assets:				
Cash and Pooled Investments (Note 2)	408,694	-	408,694	51,130
Deposit on Hold with Trustee (Note 6)	28,397	-	28,397	-
Restricted Investments	-	177,705	177,705	-
Other Restricted Assets	-	-	-	6,465
Capital Assets: (Note 12)				
Non-Depreciable Assets	898,523	3,957,266	4,855,789	286,225
Depreciable Capital Assets, Net	2,649,808	197,848	2,847,656	526,930
Total Capital Assets, Net	3,548,331	4,155,114	7,703,445	813,155
Total Assets	6,639,524	4,647,149	11,286,673	2,068,616
	-			
DEFERRED OUTFLOWS OF RESOURCES				
Derivative Instrument - Interest Rate Swap	-	-	-	1,206
Total Deferred Outflow of Resources	-	-	-	1,206
LIABILITIES				
Accounts Payable	519,586	54,276	573,862	12,243
Accrued Liabilities	81,912	41,280	123,192	21,702
Accrued Interest Payable	30,299	25,220	55,519	-
Unearned Revenues	1,024	-	1,024	3,458
Escrow Deposits	-	6,122	6,122	-
Advances From Federal Government	20,062	72,132	92,194	-
Due Within One Year (Note 10)	253,234	93,220	346,454	23,932
Due In More Than One Year (Note 10)	4,039,786	1,171,349	5,211,135	897,404
Total Liabilities	4,945,903	1,463,599	6,409,502	958,739
DEFERRED INFLOWS OF RESOURCES				
Derivative Instrument - Interest Rate Swap	-	-	-	1,823
Total Deferred Inflow of Resources	-	-	-	1,823
NET POSITION				
Net Investment in Capital Assets	1,701,366	3,142,841	4,844,207	592,612
Restricted For:				
Debt Service	-	163,539	163,539	-
Federal and State Regulations	408,694	-	408,694	313,237
Bond Covenants	-	-	-	53,788
Other Purposes	-	-	-	14,131
Unrestricted (Deficit)	(416,439)	(122,830)	(539,269)	135,492
Total Net Position	$ 1,693,621	$ 3,183,550	$ 4,877,171	$ 1,109,260

See Accompanying Notes to Basic Financial Statments

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenues and Changes in Net Position			
			Grants and Contributions		Primary Government			Discretely Presented
Functions/Programs	**Expenses**	**Charges for Services**	**Operating**	**Capital**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Primary Government:								
Governmental Activities:								
General Governmental Services	$ 543,931	$ 287,709	$ 25,141	$ -	$ (231,081)	$ -	$ (231,081)	$ -
Health and Children Services	2,428,629	73,522	1,150,434	-	(1,204,673)	-	(1,204,673)	-
Judicial and Public Safety	711,361	126,052	42,198	-	(543,111)	-	(543,111)	-
Natural Resources and Environmental Control	147,733	59,262	36,994	-	(51,477)	-	(51,477)	-
Labor	69,226	7,103	43,247	-	(18,876)	-	(18,876)	-
Education	2,408,647	5,565	253,940	-	(2,149,142)	-	(2,149,142)	-
Interest on Long-term Debt	54,969	-	-	-	(54,969)	-	(54,969)	-
Total Governmental Activities	6,364,496	559,213	1,551,954	-	(4,253,329)	-	(4,253,329)	-
Business-type Activities:								
Lottery	358,467	635,264	-	-	-	276,797	276,797	-
DelDot	580,392	462,609	-	211,245	-	93,462	93,462	-
Unemployment	169,508	107,646	72,517	-	-	10,655	10,655	-
Total Business-type Activities	1,108,367	1,205,519	72,517	211,245	-	380,914	380,914	-
Total Primary Government	$ 7,472,863	$ 1,764,732	$ 1,624,471	$ 211,245	$ (4,253,329)	$ 380,914	$ (3,872,415)	$ -
Component Units:								
Delaware State Housing Authority	$ 105,677	$ 49,745	$ 79,963	$ 878	-	-	-	24,909
Diamond State Port Corporation	37,764	36,750	-	12,089	-	-	-	11,075
Riverfront Development Corporation	10,046	1,668	200	6,124	-	-	-	(2,054)
Delaware State University	123,295	55,802	31,445	7,340	-	-	-	(28,708)
Delaware Charter Schools	117,904	13,216	4,712	3,086	-	-	-	(96,890)
Delaware Agricultural Lands Preservation Foundation	966	-	5,075	3,264	-	-	-	7,373
Total Component Units	$ 395,652	$ 157,181	$ 121,395	$ 32,781	-	-	-	(84,295)
	General Revenues:							
	Taxes:							
	Personal Income				1,130,501	-	1,130,501	-
	Business				2,051,071	-	2,051,071	-
	Real Estate				504,620	-	504,620	-
	Other				217,880	-	217,880	-
	Unrestricted Payments from Primary Government				-	-	-	141,700
	Investment Income (Loss)				11,636	(608)	11,028	(33,750)
	Gain on Disposal of Assets				-	1,018	1,018	(1,060)
	Miscellaneous				25,244	-	25,244	4,750
	Transfers In (Out)				238,244	(238,244)	-	-
	Total General Revenues				4,179,196	(237,834)	3,941,362	111,640
	Changes in Net Position				(74,133)	143,080	68,947	27,345
	Net Position - Beginning As Restated (Note 1)				1,767,754	3,040,470	4,808,224	1,081,915
	Net Position - Ending				$ 1,693,621	$ 3,183,550	$ 4,877,171	$ 1,109,260

See Accompanying Notes to Basic Financial Statments

STATE OF DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013
(Expressed in Thousands)

	General	Federal	Local School Districts	Capital Projects	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	$ 27,089	$ 2,745	$ 12,366	$ -	$ 42,200
Cash and Pooled Investments	1,729,807	6,621	297,924	173,069	2,207,421
Deposit on Hold with Trustee	28,397	-	-	-	28,397
Investments	158,340	-	569	-	158,909
Accounts Receivable, Net	73,891	11,655	171	-	85,717
Taxes Receivable, Net	91,211	-	34,859	-	126,070
Intergovernmental Receivables, Net	-	120,628	-	-	120,628
Loans and Notes Receivable, Net	49,004	261,571	-	-	310,575
Due from Other Funds	20,922	16,833	-	-	37,755
Inventories	7,681	-	-	-	7,681
Total Assets	2,186,342	420,053	345,889	173,069	3,125,353
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	380,929	108,344	18,226	12,087	519,586
Accrued Liabilities	81,912	-	-	-	81,912
Claims and Judgments	1,304	-	-	-	1,304
Escheat Liability	95,000	-	-	-	95,000
Due to Other Funds	19,034	20,922	-	-	39,956
Unearned Revenues	159,626	291,701	33,387	-	484,714
Total Liabilities	737,805	420,967	51,613	12,087	1,222,472
Fund Balances					
Nonspendable	7,681	-	-	-	7,681
Restricted	114,418	-	294,276	160,982	569,676
Committed	209,557	-	-	-	209,557
Assigned	91,597	-	-	-	91,597
Unassigned (Deficit)	1,025,284	(914)	-	-	1,024,370
Total Fund Balances	1,448,537	(914)	294,276	160,982	1,902,881
Total Liabilities and Fund Balances	$ 2,186,342	$ 420,053	$ 345,889	$ 173,069	$ 3,125,353

See Accompanying Notes to Basic Financial Statments

STATE OF DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2013
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$	1,902,881
Amounts reported for governmental activities in the statement of net position are different because:			
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:			
Land	459,587		
Land Improvements	153,346		
Buildings	2,422,593		
Easements	79,750		
Equipment, Vehicles and Software	73,869		
Construction-In Progress	359,186		
			3,548,331
Certain revenues are earned, but are not available to pay for the current period's expenditures and are reported as unearned in the funds balance sheet.			463,628
Certain liabilities net of related assets are not due and payable in the current period and are not reported in the fund balance sheet. These liabilities consist of:			
Interest Payable	(30,299)		
Claims and Judgments (Current and Long-term)	(167,214)		
Compensated Absences (Current and Long-term)	(172,747)		
Other Post Employment Benefits	(1,682,008)		
Pollution Remediation Obligations (Current and Long-term)	(27,558)		
Notes Payable	(28,550)		
Net Pension Obligation	(119,088)		
General Obligation Long-term Debt and Related Accounts	(1,991,484)		
Other Long-term Obligations	(2,271)		
			(4,221,219)
Total Net Position of Governmental Activities		$	1,693,621

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Expressed in Thousands)

	General	Federal	Local School District Fund	Capital Projects	Total Governmental Funds
Revenues					
Personal Taxes	$ 1,130,501	$ -	$ -	$ -	$ 1,130,501
Business Taxes	2,051,071	-	-	-	2,051,071
Other Tax Revenue	217,880	-	504,620	-	722,500
Licenses, Fees, Permits and Fines	335,566	-	502	-	336,068
Rentals and Sales	125,033	205	10,292	-	135,530
Grants	36,882	1,490,891	2,148	-	1,529,921
Interest and Other Investment Income	9,425	22	2,190	-	11,637
Other	186,877	5,770	25,529	-	218,176
Total Revenues	4,093,235	1,496,888	545,281	-	6,135,404
Expenditures					
Current:					
General Government	447,339	12,126	-	-	459,465
Health and Children's Services	1,325,368	1,127,398	-	-	2,452,766
Judicial and Public Safety	620,644	43,217	-	-	663,861
Natural Resources and Environmental Control	137,122	35,399	-	-	172,521
Labor	29,988	38,566	-	-	68,554
Education	1,451,323	233,886	473,936	-	2,159,145
Unrestricted Payments to Component Unit - Education	109,003	-	32,697	-	141,700
Capital Outlay	-	-	-	226,123	226,123
Debt service:					
Principal	155,096	-	-	-	155,096
Interest and Other Charges	77,136	-	-	-	77,136
Costs of Issuance of Debt	1,118	-	-	-	1,118
Total Expenditures	4,354,137	1,490,592	506,633	226,123	6,577,485
Excess (Deficiency) of of Revenues Over (Under) Expenditures	(260,902)	6,296	38,648	(226,123)	(442,081)
Other Sources (Uses) of Financial Resources					
Transfers In	520,883	16,833	51,553	-	589,269
Transfers Out	(75,734)	(39,673)	(102,322)	(133,296)	(351,025)
Issuance of General Obligation Bonds	-	-	-	336,330	336,330
Issuance of Advanced Refundings	(132,178)	-	-	-	(132,178)
Premiums on Bond Sales	-	-	-	44,635	44,635
Other Financing Sources	-	-	-	29,134	29,134
Total Other Sources (Uses) of Financial Resources	312,971	(22,840)	(50,769)	276,803	516,165
Net Change in Fund Balances	52,069	(16,544)	(12,121)	50,680	74,084
Fund Balances - Beginning as Restated (Note 1)	1,396,468	15,630	306,397	110,302	1,828,797
Fund Balances (Deficits) - Ending	$ 1,448,537	$ (914)	$ 294,276	$ 160,982	$ 1,902,881

See Accompanying Notes to Basic Financial Statments

STATE OF DELAWARE
RECONCILIATION OF THE NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENT FUNDS TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Expressed in Thousands)

Net Changes in Fund Balances		$ 74,084
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital Outlays	242,499	
Depreciation Expense	(111,701)	
		130,798
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		26,301
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Components of the debt related adjustments consist of:		
Debt Service Principal Repayments	155,096	
Advanced Refunding Payments	132,178	
New Debt Issued (Face Value)	(336,330)	
Premium Received	(44,635)	
Issuance costs	1,118	
Amortization of Premium/Issuance Costs	15,383	
		(77,190)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, the changes in these liabilities are not reported as expenditures in the governmental funds:		
Accrued Interest Expense		2,943
Claims and Judgments		(8,795)
Compensated Absences		(5,868)
Other Post Employment Benefits		(185,495)
Pollution Remediation Obligation		2,228
Pension Obligation		(1,091)
Notes Payable		(29,134)
Other Liabilities		(2,914)
Change in Net Position in the Statement of Activities		$ (74,133)

See Accompanying Notes to Basic Financial Statments

STATE OF DELAWARE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
ASSETS				
Cash and Cash Equivalents	$ 22,877	$ 1,743	$ 76,502	$ 101,122
Cash and Pooled Investments	-	1,756	4,597	6,353
Accounts Receivable, Net	17,810	11,070	17,449	46,329
Taxes Receivable, Net	24,484	-	-	24,484
Intergovernmental Receivables, Net	1	-	27,058	27,059
Interest Receivable	-	-	536	536
Inventories	-	-	18,425	18,425
Prepaid Items	-	-	4,356	4,356
Escrow Insurance Deposits	-	-	182	182
Due from Other Funds	1,524	677	-	2,201
Bond Issuance Costs	-	-	2,381	2,381
Investments:				
Unrestricted	-	-	78,455	78,455
Restricted	-	209	177,496	177,705
Other Assets	-	2,447	-	2,447
Capital Assets:				
Capital Assets, Non-depreciable	-	-	3,957,266	3,957,266
Capital Assets, Depreciable, Net	-	-	197,848	197,848
Total Capital Assets, Net	-	-	4,155,114	4,155,114
Total Assets	66,696	17,902	4,562,551	4,647,149
LIABILITIES				
Accounts Payable	-	7,042	47,234	54,276
Accrued Liabilities	30,564	4,714	6,002	41,280
Escrow Deposits	-	-	6,122	6,122
Interest Payable	1,524	-	23,696	25,220
Advances from Federal Government	71,539	-	593	72,132
Due Within One Year (Note 10)	-	-	93,220	93,220
Due in More Than Within One Year (Note 10)	-	5,146	1,166,203	1,171,349
Total Liabilities	103,627	16,902	1,343,070	1,463,599
NET POSITION				
Net Investment in Capital Assets	-	-	3,142,841	3,142,841
Restricted for:				
Debt Service	-	-	163,539	163,539
Unrestricted (deficit)	(36,931)	1,000	(86,899)	(122,830)
Total Net Position	$ (36,931)	$ 1,000	$ 3,219,481	$ 3,183,550

See Accompanying Notes to Basic Financial Statments

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Operating Revenues:				
Unemployment Taxes-State Funded	$ 107,646	$ -	$ -	$ 107,646
Gaming Revenue	-	635,264	-	635,264
Pledged Revenues:				
Turnpike Revenue	-	-	120,089	120,089
Motor Vehicle and Related Revenue	-	-	265,609	265,609
Turnpike Revenue	-	-	46,224	46,224
Passenger Fares	-	-	14,589	14,589
Miscellaneous	-	-	16,098	16,098
Total Operating Revenues	107,646	635,264	462,609	1,205,519
Operating Expenses:				
Unemployment Benefits - State Funded	106,213	-	-	106,213
Unemployment Benefits - Federal Funded	61,194	-	-	61,194
Cost of Sales	-	246,843	-	246,843
Prizes	-	99,264	-	99,264
Transportation	-	-	499,386	499,386
Depreciation	-	-	25,332	25,332
General and Administrative	-	11,360	16,450	27,810
Total Operating Expenses	167,407	357,467	541,168	1,066,042
Operating Income (Loss)	(59,761)	277,797	(78,559)	139,477
Nonoperating Revenues (Expenses):				
Investment Loss	-	-	(608)	(608)
Interest Expense	(2,101)	-	(39,224)	(41,325)
Unemployment Taxes-Federal Funded	65,194	-	-	65,194
Other Revenue	7,323	-	-	7,323
Contributions to Thoroughbred Program	-	(1,000)	-	(1,000)
Gain on Disposal of Assets	-	-	1,018	1,018
Total Nonoperating Revenues (Expenses)	70,416	(1,000)	(38,814)	30,602
Income (Loss) Before Transfers and Capital Contributions	10,655	276,797	(117,373)	170,079
Capital Contributions	-	-	211,245	211,245
Transfers In	2,089	-	43,257	45,346
Transfers Out	-	(276,797)	(6,793)	(283,590)
Increase in Net Position	12,744	-	130,336	143,080
Net Position - Beginning of Year	(49,675)	1,000	3,089,145	3,040,470
Net Position - End of Year	$ (36,931)	$ 1,000	$ 3,219,481	$ 3,183,550

See Accompanying Notes to Basic Financial Statments

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Cash Flows from Operating Activities:				
Receipts from Employers	$ 101,878	$ -	$ -	$ 101,878
Payments for Insurance Claims	(169,035)	-	(3,848)	(172,883)
Receipts from Customers and Users	-	634,702	459,188	1,093,890
Other Operating Receipts	-	-	2,435	2,435
Payments to Suppliers for Goods and Services	-	(37,798)	(375,216)	(413,014)
Payments to Employees for Services	-	(5,723)	(119,724)	(125,447)
Payments for Prizes	-	(99,020)	-	(99,020)
Payment for Commissions	-	(213,495)	-	(213,495)
Net Cash Provided (Used) by Operating Activities	(67,157)	278,666	(37,165)	174,344
Cash Flows from Noncapital Financing Activities:				
Advances from Federal Government	2,449	-	-	2,449
Receipts from Federal Government	65,103	-	-	65,103
Interest paid on Advances	(2,266)	-	-	(2,266)
Transfers In	2,255	-	43,257	45,512
Transfers Out	-	(282,389)	(6,793)	(289,182)
Net Cash Provided (Used) by Noncapital Financing Activities	67,541	(282,389)	36,464	(178,384)
Cash Flows from Capital and Related Financing Activities:				
Capital Grants	-	-	194,853	194,853
Purchases of Capital Assets	-	-	(146,610)	(146,610)
Principal Paid on Capital Debt	-	-	(83,425)	(83,425)
Interest Paid on Capital Debt	-	-	(48,115)	(48,115)
Proceeds from Sale of Land and Equipment	-	-	2,036	2,036
Bond issuance Costs	-	-	(8)	(8)
Federal Reimbursement of Debt Service	-	-	10,880	10,880
Net Cash Used by Capital and Related Financing Activities	-	-	(70,389)	(70,389)
Cash Flows from Investing Activities:				
Interest and Investment Revenues	-	-	2,392	2,392
Repayment on Loan Receivable	-	-	853	853
Escrow Deposits Received	-	-	135	135
Purchase of Investments	-	-	(369,265)	(369,265)
Proceeds from Sales and Maturities of Investments	-	271	465,570	465,841
Net Cash Provided by Investing Activities	-	271	99,685	99,956
Net Increase (Decrease) in Cash, Cash Equivalents and Pooled Investments	384	(3,452)	28,595	25,527
Cash, Cash Equivalents and Pooled Investments- Beginning of Year	22,493	6,951	52,504	81,948
Cash, Cash Equivalents and Pooled Investments - End of Year	22,877	3,499	81,099	107,475
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	(59,761)	277,797	(78,559)	139,477
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	-	-	25,332	25,332
Decrease (Increase) in Assets:				
Receivables, Net	(5,770)	(562)	(930)	(7,262)
Inventories	-	-	103	103
Prepaid Items	-	-	(550)	(550)
Increase (Decrease) in Liabilities:				
Accounts and Other Payables	-	-	451	451
Accrued Liabilities	(1,628)	(9)	(1,390)	(3,027)
Accrued Expenses	-	243	1,458	1,701
Accrued Payroll and Related Expenses	-	1,197	(3,161)	(1,964)
Post-Employment Benefits	-	-	24,607	24,607
Due To/From Government	2	-	(4,526)	(4,524)
Net Cash Provided (Used) by Operating Activities	$ (67,157)	$ 278,666	$ (37,165)	$ 174,344
Schedule of Noncash Noncapital Financing Activities				
Forgiveness of Advances from Federal Government	$ 7,323	$ -	$ -	$ 7,323

See Accompanying Notes to Basic Financial Statments

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust	Agency
Assets:				
Cash and Cash Equivalents	$ 432,315	$ 3,899	$ 2,521	$ 28,694
Cash and Pooled Investments	687	35,095	-	25,002
Receivables:				
Accrued Interest	15,090	-	74	-
Investment Sales Pending	17,193	-	91	-
Employer Contributions	9,438	6,576	-	-
Member Contributions	2,655	74	-	-
Other Receivables	-	-	-	46,172
Investments, at Fair Value:				
Domestic Fixed Income	266,599	76,172	6,065	-
Domestic Equities	1,871,050	75,610	14,543	-
Pooled Equity and Fixed Income	2,860,837	-	15,101	-
Alternative Investments	1,520,018	-	8,065	-
Short Term Investments	-	-	-	2,772
Foreign Fixed Income	145,425	-	770	-
Foreign Equities	953,246	35,831	7,246	-
Total Assets	8,094,553	233,257	54,476	102,640
Liabilities:				
Accounts Payable	-	-	-	102,640
Investment Purchase Payable	27,908	-	148	-
Benefits/Claims Payable	1,429	11,556	-	-
Accrued Investment Expense	4,921	6	26	-
Accrued Administrative Expenses	497	5	-	-
Total Liabilities	34,755	11,567	174	102,640
Net Position:				
Assets Held in Trust for Benefits and Pool Participants	$ 8,059,798	$ 221,690	$ 54,302	$ -

See Accompanying Notes to Basic Financial Statments

STATE OF DELAWARE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust
Additions:			
Contributions:			
Employer Contributions	$ 236,140	$ 193,089	$ -
Transfer of Contributions from Post-Retirement Increase Fund	26,585	-	-
Transfer of Assets from Outside the System	3,018	14,897	661
Member Contributions	59,798	7,390	-
Other	9	-	-
Total Contributions	325,550	215,376	661
Investments:			
Investment Earnings	140,245	4,647	1,035
Net Increase in Fair Value of Investments	680,885	11,760	4,339
Total Investment Earnings	821,130	16,407	5,374
Less Investment Manager/Advisor/Custody Fees	(21,008)	(74)	(116)
Less Investment Administrative Expenses	(697)	-	-
Net Investment Earnings	799,425	16,333	5,258
Total Additions	1,124,975	231,709	5,919
Deductions:			
Transfer of Assets from Post-Retirement Increase Fund	26,585	-	-
Transfer of Assets from Outside the System	1,954	-	630
Pension/Claim Payments	519,075	173,034	-
Refunds of Contributions to Members	4,028	-	-
Group Life Payments	5,361	-	-
Administrative Expenses	5,930	72	1
Total Deductions	562,933	173,106	631
Change in Net Position	562,042	58,603	5,288
Net Position - Beginning of Year	7,497,756	163,087	49,014
Net Position - End of Year	$ 8,059,798	$ 221,690	$ 54,302

See Accompanying Notes to Basic Financial Statments

STATE OF DELAWARE
COMBINING STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2013
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	Delaware Agricultural Land Preservation Foundation	Total
ASSETS							
Cash and Cash Equivalents	$ 43,870	$ 5,582	$ 1,191	$ 2,098	$ -	$ -	$ 52,741
Cash and Pooled Investments	10,736	-	28	16,526	35,868	7,957	71,115
Accounts and Other Receivables, Net	51,217	2,923	64	15,338	2,828	-	72,370
Loans and Notes Receivable, Net	258,048	-	2,978	-	-	52	261,078
Inventories	-	867	-	-	-	-	867
Prepaid Items	3,530	1,237	138	-	162	-	5,067
Deferred Bond Issuance Costs	7,081	-	-	1,726	737	-	9,544
Investments	700,970	-	-	23,095	-	-	724,065
Other Assets	3	-	879	47	90	-	1,019
Restricted Assets:							
Cash and Cash Equivalents	965	19,890	2,000	22,404	5,871	-	51,130
Other Restricted Assets	-	-	-	6,445	20	-	6,465
Capital Assets:							
Capital Assets - Non-Depreciable	4,346	26,733	13,664	4,532	23,581	213,369	286,225
Capital Assets - Depreciable, Net	14,139	140,205	99,118	210,733	62,735	-	526,930
Total Capital Assets, Net	18,485	166,938	112,782	215,265	86,316	213,369	813,155
Total Assets	1,094,905	197,437	120,060	302,944	131,892	221,378	2,068,616
				-			
DEFERRED OUTFLOWS OF RESOURCES							
Derivative Instrument - Interest Rate Swap	-	-	-	-	1,206	-	1,206
Total Deferred Outflow of Resources	-	-	-	-	1,206	-	1,206
LIABILITIES							
Accounts Payable	1,057	149	892	6,047	4,072	26	12,243
Accrued Liabilities	18	7,617	100	4,876	9,085	6	21,702
Unearned Revenue	-	39	58	3,280	81	-	3,458
Due Within One Year (Note 10)	14,540	1,324	1,320	4,186	2,555	7	23,932
Due in More Than Within One Year (Note 10)	660,621	25,383	13,214	114,395	83,791	-	897,404
Total Liabilities	676,236	34,512	15,584	132,784	99,584	39	958,739
DEFERRED INFLOWS OF RESOURCES							
Derivative Instrument - Interest Rate Swap	-	-	-	-	1,823	-	1,823
Total Deferred Inflow of Resources	-	-	-	-	1,823	-	1,823
Net Position							
Net Investment in Capital Assets	18,484	140,231	100,248	114,776	5,504	213,369	592,612
Restricted for:							
Federal and State Regulations	304,832	-	-	435	-	7,970	313,237
Bond Covenants	53,788	-	-	-	-	-	53,788
Other Purposes	-	-	-	14,131	-	-	14,131
Unrestricted	41,565	22,694	4,228	40,818	26,187	-	135,492
Total Net Position	$ 418,669	$ 162,925	$ 104,476	$170,160	$ 31,691	$ 221,339	$ 1,109,260

See Accompanying Notes to Basic Financial Statments

STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Expressed in Thousands)

		Program Income			Net (Expenses) Revenues and Changes in Net Position						
			Grants and Contributions								
	Expenses	Charges for Services	Operating	Capital	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	Delaware Agricultural Lands Preservation Foundation	Total
Components Units											
Delaware State Housing Authority	$ 105,677	$ 49,745	$ 79,963	$ 878	$ 24,909	$ -	$ -	$ -	$ -	$ -	$ 24,909
Diamond State Port Corporation	37,764	36,750	-	12,089	-	11,075	-	-	-	-	11,075
Riverfront Business Improvement District	10,046	1,668	200	6,124	-	-	(2,054)	-	-	-	(2,054)
Delaware State University	123,295	55,802	31,445	7,340	-	-	-	(28,708)	-	-	(28,708)
Delaware Charter Schools	117,904	13,216	4,712	3,086	-	-	-	-	(96,890)	-	(96,890)
Delaware Agricultural Lands Preservation Foundation	966	-	5,075	3,264	-	-	-	-	-	7,373	7,373
	$ 395,652	$ 157,181	$ 121,395	$ 32,781	24,909	11,075	(2,054)	(28,708)	(96,890)	7,373	(84,295)
General Revenues											
Unrestricted Payments from Primary Government					-	-	-	33,943	107,757	-	141,700
Investment Income (Loss)					(31,161)	(1,132)	147	(1,762)	157	1	(33,750)
Gain on Disposal of Assets					-	-	(1,060)	-	-	-	(1,060)
Miscellaneous					-	-	-	185	4,494	71	4,750
Total General Revenues					(31,161)	(1,132)	(913)	32,366	112,408	72	111,640
Change in Net Position					(6,252)	9,943	(2,967)	3,658	15,518	7,445	27,345
Net Position - Beginning of Year as Restated (Note 1)					424,921	152,982	107,443	166,502	16,173	213,894	1,081,915
Net Position - Ending of Year					$ 418,669	$ 162,925	$ 104,476	$ 170,160	$ 31,691	$ 221,339	$ 1,109,260

See Accompanying Notes to Basic Financial Statments

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Delaware (the State) have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

(a) Reporting Entity

The accompanying financial statements present the State's primary government and include all funds, elected officials, departments and organizations, bureaus, boards, commissions, and authorities that comprise the State's legal entity. Also included in the State's primary government are the State's 16 local school districts and 3 vo-tech schools (collectively referred to as the local school districts). The local school districts have separately elected boards, but they have not been specifically granted power by legislation to be legally separate. Based on the powers and authority granted in Title 14 of the State of Delaware code, the primary government holds sufficient power and responsibility that the local school districts have been accounted for as not being legally separate and as a result have been reported in the primary government. The financial activity of the local school districts is reported in the General Fund, Local School District Fund (for real estate taxes levied by the Schools), Federal Fund, and the Capital Projects Fund.

The DelDOT enterprise fund is also included in the reporting entity of the primary government. DelDOT has the overall responsibility for coordinating and developing transportation polices for the state along with the maintenance and operation of roadways and bridges that fall under its jurisdiction. To assist DelDOT in their mission, the State and DelDOT created the Delaware Transportation Authority (the Authority), which includes the activities of the Transportation Trust Fund (the Trust Fund) and the Delaware Transit Corporation (DTC). The Authority is a body politic and corporate whose actions are overseen by the Secretary of Transportation, the Director of the Office of Financial Management and Budget, and the Administrator of the Trust Fund. The Authority's principal role is to provide financing to DelDOT and as a result is a blended component unit of DelDOT.

Fiduciary funds, although legally separate entities, are in substance part of the State's operations. The State's reporting entity also comprises its component units, entities for which the State is considered either financially accountable or the nature and the significance of their relationship with the State is such that exclusion would cause the State's financial statements to be misleading. Blended component units are reported within the primary government. Discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that such are legally separate from the State.

The decision to include and how to report a component unit in the State's reporting entity is based on several criteria, including legal standing, debt responsibility, fiscal dependency, and financial accountability. The State is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide

specific financial benefits to, or impose specific financial burdens on, the State. The State may also be financially accountable if an organization is fiscally dependent on the State and there is a potential for the organization to provide specific benefits to or impose specific financial burdens on the State, regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Blended Component Units

The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity, which includes its blended component unit, the First State Independence Fund I, LLC, a hedge fund-of-funds which DPERS is considered to be financially accountable. DPERS' Board is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two ex-officio members. It provides services and benefits almost exclusively to the primary government, and it is considered a blended fiduciary funds component unit and is shown in the financial statements as part of the primary government as a pension trust fund. The financial report of DPERS for the fiscal year ended June 30, 2013 may be obtained in writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

The Delaware Other Post Employment Benefit Fund Trust (OPEB Trust) is a trust, which provides retirement medical coverage to pensioners and their eligible dependents in the State's Employees', Judiciary, New State Police, and Closed State Police Pension Plans. The OPEB Trust is a legally separate entity and by legislative code the Board of DPERS serves as the Board of the OPEB Trust. It provides services and benefits almost exclusively to the primary government. The OPEB Trust is considered a blended fiduciary funds component unit and is shown in the financial statements as part of the primary government as the OPEB Trust Fund.

The Delaware Economic Development Authority (DEDA) was established by 29 Del. C. 50, Subchapter IV as a legally separate entity to assist the State in the financing of citizens and activities of exempt persons in order to contribute to the prosperity, health, and general welfare of the citizens of the State by acting as the financing vehicle. DEDA is considered to be a blended component unit due to the board being the same as the primary government and is reported as part of the General Government in the General Fund of the primary government.

The Sustainable Energy Utility, Inc. (SEU) is a legally separate 501(c)(3) nonprofit organization, which was established to reduce energy waste and foster a sustainable energy future for the State. The Governor appoints seven of the eleven members. It provides benefits almost exclusively to the primary government by developing and coordinating programs for the purpose of promoting sustainable use of energy by State departments and agencies. The SEU is considered a blended component unit and is shown as part of the Natural Resources and Environmental Control function in the General Fund of the primary

government.

Discretely Presented Component Units

The following component units are entities that are legally separate from the State, but are financially accountable to the State for reporting purposes or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading. The component units' column of the basic financial statements includes the financial data of these entities. Each discretely presented component unit has a June 30, 2013 fiscal year-end.

Complete financial statements for each of the discretely presented component units may be obtained from their respective administrative offices.

Delaware State Housing Authority (DSHA)

The Delaware State Housing Authority is a public corporation whose Director is appointed by the Governor with the consent of the State Senate and serves at the Governor's pleasure. The DSHA is governed by the Council on Housing whose eleven members are appointed by the Governor. The DSHA administers the role of providing affordable housing as a key aspect of State policy. The State provides both General Fund appropriations and capital funding to assist DSHA in its mission. Certain transactions of the DSHA require the approval of the primary government. The DSHA is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited for-profit housing sponsors; (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making newly qualified residential mortgage loans; (3) purchase qualified mortgage loans from mortgage lenders; and (4) apply for and receive assistance and subsidies under programs from the federal government and others.

Diamond State Port Corporation (DSPC)

The Diamond State Port Corporation was organized as a body corporate and politic constituting a public instrumentality of the State. The DSPC is empowered to operate, improve and maintain the Port of Wilmington and related facilities. The Governor appoints eight of the fifteen members of the board of directors, with the advice and consent of the Senate. Certain transactions of the DSPC require the approval of the primary government.

Riverfront Development Corporation (RDC)

The Riverfront Development Corporation was formed to plan, develop and manage programs and projects intended to foster economic development along the Brandywine and Christina Rivers. The Governor appoints seven of the eighteen board members; however, seven of the remaining eleven directors consist of the Governor and six State officials. Authorization by the State's Budget Director and Controller General is required before funds of the RDC may be expended, which indicates imposition of will.

Delaware State University (DSU or the University)

Delaware State University is a public institution of higher education. Funding is primarily through State appropriations. State appropriations, without restrictions as to use by the University, are reported in general revenue. Additional funding is derived from tuition, federal grants, private donations and grants. The Board of Trustees is comprised of fifteen members, eight appointed by the Governor of Delaware and seven elected by the Trustees. The President of the University and the Governor of the State of Delaware serve as ex-officio members of the Board. Delaware State University financial data includes its two component units, the Delaware State University Student Housing Foundation and the Delaware State University Foundation, Inc. The State annually appropriates funding for the University, which totaled more than $33 million in fiscal year ending June 30, 2013, which is twenty eight percent of the University's total revenues.

Delaware Charter Schools

The State's 22 Charter Schools are public schools funded primarily through State appropriations. Additional funding is derived from federal grants passed through from the primary government, private donations and funds received from local school districts on a tax portion per child basis. State funding for the Charter Schools totaled $107.8 million for fiscal year ending June 30, 2013 which represents over eighty percent of the Charter Schools' total revenues. Each Charter School is a separate legal entity managed by their own separate board of directors and operate independently under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Charter Schools issue their own debt but are dependent on the State for their primary funding. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial to the State's basic financial statements.

Delaware Agricultural Lands Preservation Foundation (DALPF)

The Delaware Agricultural Lands Preservation Foundation was established to provide comprehensive agricultural lands preservation programs to serve the long-term needs of the agriculture community and the citizens of Delaware. State appropriations fund DALPF for their specific programs. DALPF is comprised of twelve trustees and the Governor of the State of Delaware appoints ten of them. DALPF shall continue until its existence is terminated by law, whereby all of its rights, properties and liabilities shall pass to and be assumed by the State.

Related Organizations

Organizations in which the State appoints the voting majority of the board but the State is not financially accountable for the organizations are considered related organizations.

The Delaware Solid Waste Authority (DSWA) is a legally separate entity and the primary government appoints all seven members of its governing board. The primary government's accountability for DSWA does not extend beyond making the appointments. The DSWA is

responsible for implementing solid waste disposal, recycling, and resource recovery systems, facilities and services for the State of Delaware. The financial activities of DSWA are not included in the State's financial statements.

The Delaware Health Facilities Authority (DHFA) was established by 16 Del. C.92 for the benefit of the people of the State, the increase of their commerce, welfare and prosperity and the improvement of their health and living conditions and provides a measure of assistance and an alternative method to enable facilities to provides structures needed to accomplish this purpose. All of the seven members of the board are appointed by the Governor. The primary government's accountability for DHFA does not extend beyond making the appointments. The financial activities of DHFA are not included in the State's financial statements.

Complete financial statements for each of the related organizations may be obtained from their respective administrative offices.

Jointly Governed Organization

The Delaware River and Bay Authority (DRBA), a body politic, was created with the intention of advancing the economic growth and development of those areas in the State of Delaware and the State of New Jersey, which border the Delaware River and Delaware Bay. DRBA is governed by twelve commissioners: six appointed by the State of Delaware and six appointed by the State of New Jersey. DRBA is autonomous from a day-to-day operations perspective and neither State is obligated for the DRBA's debt. DRBA is not included in the basic financial statements as the State of Delaware has no ongoing financial interest or financial responsibility. Complete financial statements for the DRBA may be obtained from its administrative office.

Other Organization

The Governor appoints eight members of the governing board of the University of Delaware (the University). The remaining twenty members are elected separately. Since the primary government's accountability does not extend beyond State grants to the University and there is a lack of fiscal dependency, the financial activities of the University are not included in the State's basic financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is separately presented from certain legally separate component units for which the State is financially accountable.

The statement of net position measures not just current assets and liabilities, but also long-term assets and liabilities such as capital assets (including infrastructure assets) and general long-term debt. The difference between the State's assets and its liabilities is its net position. Net position is displayed in three components – net investment in capital assets (capital assets, net of accumulated depreciation and related debt); restricted; and unrestricted. Net position is restricted when constraints are placed that are either externally imposed or are imposed by constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds reported as part of the fiduciary fund financial statements are custodial in nature and do not present results of operations and, therefore, do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied and other taxes are recognized when the transaction occurs. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the State's enterprise operations and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Intrafund non-exchange transactions between the primary government and component units are reported as operating or capital grants as appropriate for restricted amounts. Unrestricted amounts are reported as general revenue.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to other long term liabilities including compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, grants, fees, sales, rents, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period to the extent earned and available. All other revenue items are considered to be measurable and available only when cash is received by the State. Revenue related to expenditure driven grants is recognized when the qualifying expenditures have been incurred and all other requirements for recognition have been met.

Governmental Funds

The State reports the following major governmental funds:

General Fund – The General Fund is the State's primary operating fund. It accounts for all financial resources obtained and used for those services traditionally provided by a state government, which are not required to be accounted for in other funds. These services include, among others, education, and health and social services.

Federal Fund – The Federal Fund accounts for all activities relating to the State's federal grant programs.

Local School District Fund – The Local School District Fund is used to account for aggregate financial activity of the State's local school districts that is funded by locally-raised real estate taxes, interest, and minor miscellaneous revenue. All other financial activity that is funded from sources, such as federal grant programs, major and minor capital project programs, and subsidized government programs are accounted for in the General Fund, Federal Fund, and Capital Projects Fund.

Capital Projects Fund – Transactions related to resources obtained and used for the acquisition or construction of major capital facilities (other than those financed by Proprietary and Fiduciary Funds), are accounted for in the Capital Projects Fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants, and transfers from the General Fund.

Proprietary Funds

Proprietary funds are used to account for those activities which are financed and operated in a manner similar to private business enterprises. The costs of providing services to the public

on a continuing basis are financed by or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the unemployment fund are charges to employers for taxes against wages. The principal operating revenues of the lottery fund and DelDOT fund are charges to customers for sales and services.

The Lottery fund recognizes revenue from online games on the day of the drawing. Revenue from the sale of instant tickets is recognized when the book has been activated and 85% of the related prizes of an activated book are paid, 90 days from the date of activation, or when the next pack of the same game is activated. Revenue from the video lottery and table games is recognized, net of prizes paid, at the time the public plays the game. Revenue from the sports lottery is also recognized at the time the public plays the game.

Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. For the unemployment fund, expenses are payments of benefits to recipients. All expenses not meeting this definition are reported as non-operating expenses.

The State reports the following major proprietary funds:

DelDOT Fund – The DelDOT Fund accounts for the activities relating to the operation of the State's Department of Transportation, including the Delaware Transportation Trust (Authority), which is comprised of the Transportation Trust Fund and Delaware Transit Corporation.

Unemployment Fund – The Unemployment Fund accounts for the activities relating to the State's Unemployment Insurance Trust Fund.

Lottery Fund – The Lottery Fund accounts for the activities relating to the State's Lottery program.

Fiduciary Funds

The fiduciary funds account for assets held by the State in a trustee capacity or as an agency for other individuals or organizations. The fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The State reports the following fiduciary funds:

Agency Funds – Agency funds are custodial in nature and do not involve measurement of the results of operations. They account for the receipt of various taxes, deposits, deductions, and certain property collected by the State, acting in the capacity of an agent, and for the distribution to other governmental units or designated beneficiaries.

Pension Trust Funds – The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. It provides services and benefits almost exclusively to the primary government and it is considered a fiduciary fund and is shown in the financial statements as part of the primary government as a pension trust fund. Pension trust funds account for transactions, assets, liabilities and net position available for plan benefits (Note 15). For pension trust funds, employee contributions are recognized as revenue in the period in which the employee services are performed. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investment Trust Funds – Investment Trust Funds are used to account for external investment pools where a government commingles the monies of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. The Investment Trust Fund accounts for the transactions, assets, liabilities and fund equity for the DPERS's external investment pool and for the OPEB Fund Investment Trust Fund.

OPEB Trust Fund – The OPEB Trust Fund is a trust administered by DPERS. In addition to providing pension benefits, the State is statutorily required to provide health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the State and the retired employee.

New Accounting Pronouncements

During fiscal year ending June 30, 2013, the state adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus and amendment GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity and to better meet user needs and to address reporting entity issues that have arisen since the issuance of Statements No. 14 and No. 34.

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. This Statement also clarifies the reporting of equity

interests in legally separate organizations and amends certain note disclosure requirements. The adoption of Statement No. 61 in 2013 resulted in the State decreasing net position of the governmental activities as of June 30, 2012 in the amount of $213.9 million for the change of DAPLF from blended with the governmental activities to a discretely presented component unit and a related $525 thousand decrease in the General Fund balance as of June 30, 2012 on the Governmental Funds Balance Sheet as follows:

Government Wide Statement of Net Position
(Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Total	Discretely Presented Component Units
Net Position as previously reported at June 30, 2012	$ 1,981,648	$ 3,040,470	$ 5,022,118	$ 828,792
Apply GASB 61:				
DAPLF	(213,894)	-	(213,894)	213,894
	1,767,754	3,040,470	4,808,224	1,042,686
Other:				
DSHA (Note 21)	-	-	-	58,931
Other	-	-	-	(19,702)
Net Position as restated at July 1, 2012	$ 1,767,754	$ 3,040,470	$ 4,808,224	$ 1,081,915

Governmental Funds Balance Sheet
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total
Net Position as previously reported at June 30, 2012	$ 1,396,993	$ 15,630	$ 306,397	$ 110,302	$ 1,829,322
Restatement for GASB 61 Adjustment	(525)	-	-	-	(525)
Net Position as restated at July 1, 2012	$ 1,396,468	$ 15,630	$ 306,397	$ 110,302	$ 1,828,797

During fiscal year ending June 30, 2013 the State adopted GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position***.** This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. GASB Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. Statement No. 63 amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure

as net position, rather than net assets. The adoption of Statement No. 63 resulted only in the State renaming net assets to net position.

Impact of Future Accounting Pronouncements

In 2012, the GASB issued No. 65 *Items Previously Reported as Assets and Liabilities***.** This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. Statement No. 65 amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in GASB Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged. The State is currently evaluating the future impact of this statement.

In 2012, the GASB issued No. 66 *Technical Corrections—2012— an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10 *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The provisions of this Statement are effective for periods beginning after December 15, 2012. The State is currently evaluating the future impact of this statement.

In June of 2012, the GASB issued No. 67 *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional

transparency. This Statement will replace the requirements of Statements No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50 *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement and Statement No. 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The provisions of this Statement are effective for fiscal years beginning after June 15, 2013. The State is currently evaluating the future impact of this statement.

In June of 2012, the GASB issued No. 68 *Accounting and Financial Reporting for Pensions – An Amendment to GASB Statement No. 27***.** The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement — determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan. This Statement is effective for fiscal years beginning after June 15, 2014. This will result in the liability being included on the statement of net position.

In 2013, the GASB issued No. 69 *Government Combinations and Disposals of Government Operations***.** This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged. The State is currently evaluating the future impact of this statement.

In 2013, the GASB issued No. 70 *Accounting and Reporting for Non-exchange Financial Guarantees***.** Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly

receiving equal or approximately equal value in exchange (a non-exchange transaction). As a part of this non-exchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a non-exchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for disclosures related to cumulative amounts paid or received in relation to a non-exchange financial guarantee, the provisions of this Statement are required to be applied retroactively. Disclosures related to cumulative amounts paid or received in relation to a non-exchange financial guarantee may be applied prospectively. The State is currently evaluating the future impact of this statement.

(c) Assets, Liabilities, and Net Assets or Equity

Cash Equivalents, Cash and Pooled Investments, and Investments

Cash equivalents consists of demand deposits, short-term money market securities, and other deposits held by financial institutions, generally with original maturities of three months or less.

Cash and Pooled Investments consist of cash equivalents, commercial paper, certificates of deposit, short-term (12 to 18 months) and long-term investments, which comprise corporate, municipal and U.S. government obligations, held and managed by the State Treasurer.

Investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

All of the investment assets of the Pension and Investment Trust Funds, with the exception of the Closed State Police Pension Plan (which is a pay-as-you-go plan) and the Delaware Volunteer Fireman's Fund (which is a length of service award plan), are pooled and invested in a common Master Trust. Investments are presented at fair value. Fair values for fixed income and equity securities are determined by quoted market prices based on national exchanges when available. Pooled investments are funds wherein the System owns units or shares of commingled equity, bond, and cash funds. Pooled investments are redeemable with the underlying funds at net asset values under the original terms of the partnership agreements and/or subscription agreements. Alternative investments include nontraditional investments, some of which may be illiquid, such as limited partnerships, venture capital funds, or private LLCs.

DPERS or management generally uses net asset value as reported by investment managers as a practical expedient to fair value for its investments in pooled and alternative investment funds. Net asset values provided by pooled and alternative investment managers are based on quoted prices for the funds' underlying securities (most of which are marketable), as well as estimates, appraisals, assumptions, and methods that are established by valuation

committees and reviewed by DPERS or management. Net asset value may differ from fair value, and under some circumstances, DPERS or management may determine, based on other information available, that an underlying investment's reported valuation does not represent fair value. These net asset values are review by DPERS or management and its investment advisor; both management and the custodian receive periodic and audited annual financial reports from the alternative fund managers.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). All trade and property tax receivables, including those for the component units, are shown net of an allowance for uncollectibles and refunds.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed, rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as needed. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation.

The State has the following restricted assets:

- The Delaware Transportation Authority restricts revenue bond proceeds that are accounted for in the Transportation Fund.
- The governmental activities have funds that are required to be restricted as disclosed in Note 16.

The discretely presented component units have the following restricted assets:

- Diamond State Port Corporation has restricted investments for capital project outlays.
- Delaware State University has restricted assets for capital project outlays, grants, and college endowment funds.
- Charter schools have restricted assets to cover debt service payments, capital improvements and donor imposed restrictions.
- Delaware State Housing Authority has restricted assets used for the specific purpose of housing development fund activities per enabling legislation.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (which are normally immovable and of value only to the State, such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, the proprietary funds and discretely presented component units.

Capital assets are defined by the State as assets with estimated useful lives in excess of one year at the date of acquisition. Such assets are recorded at historical cost if purchased or constructed, or estimated historical cost if the original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land and buildings are capitalized, regardless of cost. Equipment and vehicles are capitalized when the cost of individual items exceeds $25,000. Building and land improvements are capitalized when the cost of the project exceeds $100,000. Infrastructure and software are capitalized when the costs of individual items or projects exceed $1.0 million. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized, but rather expenses as incurred.

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as statues, monuments, historical documents, paintings, forts, miscellaneous State capitol-related artifacts and furnishings. These assets are held for public exhibition, education or research in the furtherance of public service rather than for financial gain; they are protected, kept unencumbered, cared for and preserved; and they are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, equipment, and software of the primary government and component units is depreciated using the straight line method over the following estimated useful lives:

Asset	Primary Government Years	Component Unit Years
Buildings and Building Improvements	10 - 40	15 - 75
Land Improvements	20	N/A
Furniture and Equipment	3 - 12	3 - 40
Vehicles	7	N/A
Software	5	N/A

The State has elected to use the modified approach to account for certain infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Advances from Federal Government

During the fiscal year ended June 30, 2013, the amount of unemployment insurance taxes collected by the Division of Unemployment Insurance from Delaware employers was not sufficient to cover the amount of benefits paid to Delaware residents. As a result, the unemployment fund received advances from the federal government to be used for benefit payments. Pursuant to Subchapter XII – *Advances to State Unemployment Funds, 42 U.S.C. §1321*, advances are made to the unemployment fund once all funds in the trust have been extinguished, and amounts borrowed must be no more than the aggregate amount necessary to provide benefit payments in any three-month period, as certified by the Federal Secretary of Labor. These advances must be repaid when funds become available in the Unemployment Fund. Interest accrues daily, and the interest rate varies, based upon the outstanding balance of the loan. Interest is due annually on September 30 and is to be paid using appropriations from the State General Fund. Total accrued interest was $1.5 million as of June 30, 2013 and a corresponding receivable due from the State General Fund has been accrued accordingly. The outstanding advance balance totaled $71.5 million as of June 30, 2013.

For the year ended June 30, 2013, $20.1 million was received in advance largely for Health and Human Services and Education programs and is recorded in the Federal Fund.

Compensated Absences

It is the State's policy to permit employees to accumulate earned, but unused vacation and sick pay benefits. In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. In the government-wide and proprietary fund financial statements, the State has accrued a liability for compensated absences, recognizing the obligation to make future payments.

Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund Equity

In governmental fund types, fund equity is called "fund balance." Fund balances are reported as nonspendable, restricted, committed, assigned, or unassigned as described in note 16.

The State Constitution provides that certain excess unencumbered budgetary general funds at the end of a fiscal year must be placed in a reserve account (the Budgetary Reserve Account). This account, designed to mitigate the operational impact of any future unanticipated deficits may not exceed 5% of the estimated general fund revenue for the ensuing fiscal year. Total funding of the budgetary reserve account was $198.9 million at June 30, 2013.

When resources meeting more than one of the classifications (excluding nonspendable) are commingled in an account, assuming that expenditure meets the constraints of the classification, the assumed order of spending is restricted first, committed second, assigned third and finally unassigned.

In proprietary funds, fund equity is called net position. Net position is comprised of three components: net investment in capital assets; restricted; and unrestricted.

(d) Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables when entitlement occurs. All other federal reimbursement type grants are recorded as accounts receivable when the related expenditures or expenses are recognized. Related revenue is recorded subject to availability in the governmental funds. Amounts not collected within 60 days of fiscal year-end are recorded as deferred revenue in the governmental funds.

(e) Litigation Revenue

In 1997, several states began litigation against defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to the users of tobacco products. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states until 2025. The State's share of the estimated $200 billion settlement amounted to $774.5 million. Amounts to be remitted

are calculated based on a variety of specific settlement provisions. Future tobacco product sales are one key factor used in determining periodic payment amounts. A receivable of $13.5 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of $26.3 million are recorded in the general fund as part of other revenue and as miscellaneous general revenue on the government-wide statement of activities. Expenditures of monies received under the Master Settlement Agreement are authorized by legislation and are dedicated to health care and related programs.

(f) Management Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements. Estimates also affect the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 CASH, INVESTMENTS AND RESTRICTED ASSETS

Cash Management Policy and Investment Guidelines

The State Treasurer maintains the majority of the deposits and investments of the primary government and uses professional money managers to invest the State's deposits according to guidelines set in the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) by the State's Cash Management Policy Board (the Board). The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in DPERS, the OPEB Trust and money held under the State deferred compensation program. By law, all deposits and investments belonging to the State are under the control of the State Treasurer in various pooled investment funds (State Investment Pool) except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board. The deposit and investment policies of those entities may differ from those of the State Treasurer. Typically, these agencies follow the deposit and investment policies of the State Treasurer in an effort to minimize deposit and investment risks.

As mandated by State statutes, the State's funds shall be invested pursuant to the prudent person standard as defined in the Policy. The prudent person standard allows the Board to establish investment policies based on investment criteria that it defines, and it allows the Board to delegate investment authority to investment professionals. This standard of care not only permits, but also encourages diversifying investments across various asset classes.

The objectives and guidelines, as outlined in the Policy, apply to all cash and special purpose funds for which the State is financially accountable. These funds are categorized as outlined below:

- Cash Accounts. Cash accounts divide the State's available cash into three parts:

- Collection and Disbursement Accounts: The State maintains an amount of cash in its general collection and disbursement accounts sufficient to meet its outstanding obligations.
- Cash and Liquidity Accounts: The majority of the State's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts are managed and invested by investment managers, selected by the Board through competitive bid, in order to maximize the return to the State while, at the same time, providing for safety of principal and sufficient liquidity for the State to meet its cash needs. The State manages its short-term investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any needs.
- Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the Board directs the funding of a third part. This account is managed and invested by an investment manager or managers, selected by the Board after a competitive bid, in order to maximize the return on said money to the State while providing for the safety of principal. The State manages its intermediate investments to ensure such investments are made under circumstances and in amounts in which the State would not be forced to liquidate them at a loss.

- Special Purpose Accounts. There are two primary types of special purpose accounts:

  - Endowment Accounts: Endowment accounts consist of funds set-aside for specified purposes.
  - Authority Accounts: The State's Authorities (state agencies, local school districts and component units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

The Policy specifies the types of investments these managers can make; the maximum percentage of assets that may be invested in particular instruments; the minimum credit quality of these investments; and the maximum length of time the assets can be invested. The Policy provides, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. The following investments are permissible for all funds under the review of the Board, subject to percentage limitations of the account:

- U.S. government securities
- Government agency securities
- Certificates of deposit, time deposits, and bankers acceptances
- Corporate debt instruments
- Repurchase agreements
- Reverse repurchase agreements
- Money market funds
- Canadian treasury bills
- Canadian agency securities

- Mortgage-backed and asset-backed securities
- Municipal obligations

Additional permissible investments for special-purpose accounts only:

- Guaranteed investment contracts
- Asset-backed securities and trust certificates

The primary government's accounts are categorized as "authority accounts". At June 30, 2013, investments of the primary government were primarily in commercial paper, corporate obligations, government agency bonds and notes, and municipal obligations. All of these meet the objectives defined by the Policy. The State's Cash Management Policy Board *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* is available by request through the Office of the State Treasurer.

Risks

The following deposits and investments disclosure of the primary government excludes the OPEB Trust and DPERS, including the Investment Trust, which are described on pages 57 - 61.

Custodial Credit Risk

Deposits

For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party.

All State deposits are required by law to be collateralized by direct obligations of, or obligations, which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized, unless the bank issuing the certificate has assets of not less than $5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch. The Board has also determined that State demand deposits need not be collateralized, provided that any bank that holds these funds has had for the last two years a return on average assets of 0.5% or greater and an average equity-capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

- U.S. Government securities;
- U.S. Government agency securities;
- Federal Home Loan Board letters of credit;
- State of Delaware securities; or
- Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

At June 30, 2013, the carrying amount of the primary government's deposits was $517.5 million

and the bank balance was $571.0 million. Of the $571.0 million bank balance, $131.0 million was fully insured; $22.8 million represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury; and the remaining $417.2 million was subject to custodial credit risk because they were uninsured and uncollateralized. Included in the primary government's deposits are agency funds. The carrying amount of the agency fund's deposits was $28.7 million and the bank balance was $31.1 million. Of the $31.1 million bank balance, $21.1 million was fully insured and the remaining $10.0 million was subject to custodial credit risk because the deposits were not covered by depository insurance or the deposits were uncollateralized, collateralized with securities held by the pledging financial institutions, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name.

Of the primary government's bank balance of $571.0 million, $386.3 million is part of the Treasurer's cash pool and the remaining balance represents outside bank accounts of the primary government.

State law permits the Treasurer to deposit in a financial institution in the State in which the Treasurer has custody if the deposit is interest bearing; the financial institution provides collateral that has a market value that exceeds the amount by which a deposit exceeds the deposit insurance, and a custodian holds the collateral.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the government's name.

At June 30, 2013, the primary government's investments were $2,311.1 million. Of the primary government's investments, $412.0 million was fully insured and collateralized. Included in the primary government's investments of $2,311.1 million are agency funds. The amount of the agency funds' investments was $28.0 million.

The following table provides information on $1,899.1 million of the primary government's investments that are exposed to custodial credit risk; $1.6 million of this amount represents the agency funds' investments:

Investment Type	Fair Value (Expressed in Thousands)
Certificates of Deposit	$ 64,289
Commercial Paper	113,424
Corporate Obligations	372,385
U.S. Government Obligations	1,115,219
Municipal Obligations	12,319
Other Obligations	221,479
	$ 1,899,115

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Also, the terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The State manages interest rates using the segmented time distribution and effective duration methods. The State approves and contracts with different investment managers of fixed income securities in order to manage the exposure to interest rate risk with each different manager focusing on different goals of yield periods or duration of maturities of their particular portion of the investment pool. The Policy provides either maturity or duration limitations for the various investment pools. The interest rate risk inherent in the portfolio is monitored by measuring the weighted average maturity and/or duration.

Effective duration measures the expected change in value of a fixed income security for a given change in interest rate. This method takes into account the likely timing and amounts of variable cash flows for bonds with call options and prepayment provisions.

The following table presents the fair value and effective duration of the primary government and agency fund investments by investment type at June 30, 2013:

Investment Type	**Treasurer's Pool**	**Outside Treasurer's Pool**	**Total Investments** (Expressed in Thousands)	**Effective Duration (In Years)**
Corporate Obligations	$ 372,385	$ -	$ 372,385	1.61
Municipal Obligations	12,319	-	12,319	5.58
U.S. Government Obligations	1,114,561	172,945	1,287,506	1.96
Other Obligations	216,385	159,723	376,108	2.07
Commercial Paper	113,324	83,791	197,115	0.32
Certificates of Deposit	64,288	1,382	65,670	0.44
	$ 1,893,262	$ 417,841	$ 2,311,103	

Although the Policy does not limit total portfolio maturities, it provides maximum maturity restrictions for each of the investment account types as described below:

- Cash Account Investment. The maximum maturity for any investment at the time of purchase for the cash account is one year.
- Liquidity Accounts. The maximum maturity for any investment at the time of purchase for the liquidity accounts is two years.
- Reserve Cash (Intermediate) Account. The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years.
- Endowment Accounts. The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years. The Board shall consider tailoring maturity restrictions to meet specific purposes for endowment accounts to be established in the future.
- Authority Operating, Bond and Debt Service Reserve Fund Accounts. Maturity

Restrictions: The maximum maturity for any investment at the time of purchase is 10 years, except when prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

As of June 30, 2013, the primary government and agency funds had the following debt investments and maturities:

Investment Maturity
(Expressed in Thousands)

		Investment Maturities			
	Fair Value	**Less Than 1**	**1 to 5**	**6 to 10**	**More than 10**
Long Term Investments					
Corporate Obligations					
Corporate Bonds	$ 332,389	$ 150,327	$ 177,460	$ 4,602	$ -
Asset-Backed Securities	39,996	3,881	36,115	-	-
Municipal Obligations	12,319	401	11,303	-	615
U.S. Government Obligations					
U.S. Treasury Bonds, Notes	499,630	658	488,559	10,413	-
U.S. Agency Bonds, Notes	253,901	-	185,944	44,249	23,708
Non US Gov't Obligations	25,651	2,752	20,085	2,814	-
Other Obligations					
Private Placements	215,340	81,771	133,415	154	-
Pooled Investments	160,768	160,768	-	-	-
Short Term Investments					
Commercial Paper	197,115	196,621	494	-	-
Certificate of Deposit	65,670	65,670	-	-	-
U.S. Government Obligations					
U.S. Treasury Bonds, Notes	325,072	290,281	9,932	24,859	-
U.S. Agency Bonds, Notes	183,252	135,415	22,029	23,950	1,858
Total Investments	**$ 2,311,103**	**$ 1,088,545**	**$ 1,085,336**	**$ 111,041**	**$ 26,181**

Credit Risk

Credit risk of investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Policy requires that the State's investments in asset-backed securities be rated AAA by a major rating agency. Corporate debt instruments must be rated by Standard and Poor's Ratings Services (S & P) and/or Moody's Investor Service (Moody's) and/or Fitch Ratings (Fitch) as follows:

Investment	**S & P**	**Moody's**	**Fitch**
Commercial Paper	A-1	P-1	F1
Senior Long-Term Debt	A	A	A
Corporate Bonds	AA	Aa	AA

Additionally, the State has multiple non-rated/pooled accounts which represent immaterial amounts when treated individually. The Board permits the types of investments which are held in these accounts.

The following table presents the State's investments which were rated by S & P as of June 30, 2013 the ratings are presented using S & P's rating scale:

Credit Risk - Quality Ratings
(Expressed in Thousands)

Investment Type	TOTAL	AAA	AA	A	A-1	NR
Long Term Investments						
Corporate Obligations						
Corporate Bonds	$ 332,389	$ 24,033	$ 215,623	$ 92,733	$ -	$ -
Asset-Backed Securities	39,996	23,357	-	-	-	16,639
Municipal Obligations	12,319	-	11,392	753	-	174
U.S. Government Obligations						
U.S. Treasury Bonds, Notes	499,630	-	499,630	-	-	-
U.S. Agency Bonds, Notes	253,901	-	253,901	-	-	-
Other Obligations	25,651	2,752	15,788	5,746	-	1,365
Private Placements	215,340	29,470	112,477	4,514	-	68,879
Pooled Investments	160,768	-	-	-	-	160,768
Short Term Investments						
Certificate of Deposit	65,670	-	4,339	30,277	-	31,054
Commercial Paper	197,115	-	-	-	185,157	11,958
U.S. Government Obligations						
U.S. Treasury Bonds, Notes	325,072	-	325,072	-	-	-
U.S. Agency Bonds, Notes	183,252	-	183,252	-	-	-
Total Investments	**$ 2,311,103**	**$ 79,612**	**$ 1,621,474**	**$ 134,023**	**$ 185,157**	**$ 290,837**

NR = Non-Rated Pooled accounts

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the State's investments in a single issuer (5% or more of total investments). When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The investments in obligations explicitly guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure.

The Policy provides the following percentage of account limitations, valued at market. Investments due to mature in one business day may be excluded from the computation of said limitations.

A. U.S. Government - no restrictions.

B. Government agency - 50% total; 20% in any one agency.

C. Certificates of deposits, time deposits and bankers acceptances - 50% total; 5% in any one issuer.

   1. Domestic - No additional restrictions.
   2. Non-domestic - 25%, 5% in any one issuer.

3. Delaware domiciled – Not more than the lesser of $10 million or 25% of an issuer's total equity capital may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)

D. Corporate debt - 50% total; 25% in any one industry; 5% in any one issuer, 5% of any issuer's total outstanding securities.

1. Domestic - No additional restrictions.
2. Non-Domestic - 25%; 5% in any one issuer.

E. Repurchase agreements - 50% total.

F. Reverse repurchase agreements - 25% total.

G. Money market funds - 25% total; 10% in any one fund except for the Cash Account, which may invest 100% of the Account in the Delaware Local Government Investment Pool (DELGIP) Fund. The Investment Guidelines for the DELGIP Fund are defined in Appendix B of the Policy.

H. Canadian treasuries - 25% total; 10% in any one agency.

I. Canadian agency securities - 25% total; 10% in any one agency.

J. Mortgage-backed and asset-backed securities – 10% total (when combined with asset-backed securities and trust certificates if applicable).

K. Municipal obligations - 5% in any one issuer.

L. Guaranteed investment contracts - Permitted where it is prudent to match a specific investment instrument with a known specific future liability, subject to credit quality guidelines for commercial paper and corporate bonds and debentures and with adequate exit provisions in the event of the future downgrade of the issuer.

M. Asset-backed securities and trust certificates – 10% total (when combined with mortgage-backed and asset-backed securities if applicable).

At June 30, 2013, the State's investments have met the requirement of all the State's laws and policies, when applicable. There were no obligations that represented 5% or more of the primary government's investments, except for U.S. government securities, pooled and mutual funds.

Foreign Currency Risk

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment or deposit.

The Policy only permits investments denominated in U.S. dollars; therefore, the State's

investments are not exposed to foreign currency risk.

Commitments

At June 30, 2013, the State did not enter into any commitment agreements with any investment managers for future funding of various asset classes.

OPEB Trust Fund (OPEB Trust)

Investment Policy

The State Board of Pension Trustees is responsible for the management and investment of the funds in the OPEB Trust. The Board authorized its Investment Committee to select the investment managers of the OPEB Trust following the established investment guidelines for the Delaware Public Employees' Retirement System (DPERS) until a separate investment policy is adopted for the OPEB Trust. The System follows the prudent person standard, which requires fiduciaries to discharge their duties solely in the interests of participants and their beneficiaries with such care, skill, prudence, and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise with similar character and with similar aims. The OPEB Trust investment objectives and policies currently include indexed exposure to approximate the System's policy benchmark. The Investment Committee regularly reviews the OPEB investment performance, and considers investment vehicles which strike a balance between risk and return while being mindful of the government's time horizon for the OPEB investments. Of the OPEB Trust's investment balance of $187.6 million, all is invested in three mutual funds and are not in individual investments registered in the Trust's name. For the fixed income type of mutual fund, the investments in maturities is in government agencies and hold a maturity of six to ten years at a fair market value of $76.2 million with a AA credit rating. The foreign equities type of mutual fund represents $35.8 million of balance of the trust. These are denominated in US Dollars and are invested in no individual country but an international region. The other $75.6 million is in an equity index fund.

Delaware Public Employees' Retirement System (DPERS or System)

Investment Policy

There are no State statutes limiting allowable investments for the System. The investment decisions are dictated by the prudent person rule and the internal investment guidelines established by the Board as outlined below:

- Allocate a minimum of 20% of assets to fixed income investments such as bonds, cash equivalents, and certain real estate investments
- Maintain a widely diversified portfolio, to minimize the risk of overexposure in any one market segment or investment style
- Monitor the performance of all investment managers using specific benchmarks
- Control exposure in illiquid asset classes
- Review, re-examine, and reconfirm the operation of results of the investment process regularly

- Identify new long-term opportunities for risk reduction and improved investment returns
- Review actuarial assumptions to ensure consistency with capital market expectations

For the fiscal year ended June 30, 2013, management of the System has operated in accordance with these policies, in all material respects.

Securities Lending

The System entered into a contract with its custodian to allow participation in its securities lending program. The objective of securities lending is to earn income through a conservatively operated and well-controlled program. The System elected not to participate in the program during fiscal years 2013 and 2012, but may elect to participate at some time in the future.

Investments

The following is a listing of fixed income investments and cash equivalents and related maturity schedule which shows the System's exposure to interest rate risk as of June 30, 2013. It is the System's policy to classify corporate convertible bonds as equity securities because those securities generally convert to preferred equity interests upon maturity. Corporate convertible bonds in the amount of $671.6 million have been included in the chart below because they have maturity dates and are exposed to interest rate risk.

Delaware Public Employees' Retirement System (DPERS or System)
Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type/Sector	Fair Value	Less than 1	1 - 6	6 - 10	10 +
Asset Backed Securities	$ 375	$ -	$ 26	$ 349	$ -
Cash Equivalents	340,320	340,320	-	-	-
Commercial Mortgage-Backed	1,466	-	-	-	1,466
Corporate Bonds	306,795	10,764	100,413	65,292	130,326
Corporate Convertible Bonds	671,596	22,814	485,465	66,226	97,091
Government Agencies	21,535	5,438	16,097	-	-
Government Bonds	68,104	-	41,453	3,111	23,540
Municipal/Provincial Bonds	15,935	-	11,481	-	4,454
Pooled Investments	1,338,938	-	369,015	969,923	-
Total	$ 2,765,064	$ 379,336	$ 1,023,950	$ 1,104,901	$ 256,877

Interest Rate Risk

The State has delegated an investment policy for the System to the Board and its Committees. The Investment Committee sets its own guidelines in conjunction with the Board to manage and review the System's exposure to fluctuating interest rates. Interest rate risk is a consideration when establishing and reviewing investment manager guidelines and asset allocation. Both topics are included in the Statement of Investment Policies and Objectives which is published on the System's website.

Credit Risk

The System's general investment policy is to apply the prudent-person rule to all risks incurred by the fund: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The System has no investment policy that would further limit its investment choices related to credit risk. As of June 30, 2013, the System's fixed income investments and cash equivalents had the following credit risk characteristics as indicated in the following schedule (expressed in thousands):

Moody's Ratings or Comparable	Percent of Total Fund	Market Value
AAA to A	17.9%	$ 1,450,682
BBB to B	10.5%	850,709
CCC to C	0.5%	37,726
Agency of the Federal Government	0.1%	6,014
Not Rated	5.2%	419,933
Total	34.2%	$ 2,765,064

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. At June 30, 2013, the $435.3 million carrying amount of the System's cash and cash equivalents was comprised of $417.1 million of short-term investments and $18.2 million in deposits. Of the $18.2 million in deposits, $17.5 million was subject to custodial credit risk because it was uninsured and uncollaterized. The remaining $687 thousand was held as pooled deposits by the State Treasurer's Office.

Investment Concentration Risk

As of June 30, 2013, the System held no concentration of investments in an individual issuer in excess of 5% of the fair value of the System's net assets.

Management Fees

The System paid $27.4 million in management fees to the venture alternative investment funds and partnerships for the fiscal year ended June 30, 2013. These fees are netted against investment income. Management fees charged at the underlying fund level for the investments held by the First State Independence Fund I, LLC ranged from 1% to 2% of net assets, plus a performance fee of 20% on positive investment earnings, which were netted against earnings.

Investment Commitments

The System has commitments to invest up to an additional $779.2 million in venture capital limited partnerships in varying amounts as of June 30, 2013, to be drawn down, as called upon at any time during the term of each partnership, which is usually a ten-year period. Generally, these

commitments are self-funding, in that the capital calls are met using cash flows generated by the existing venture capital/limited partnerships as managers in this asset class realize the proceeds of their investments.

Foreign Investments

Foreign investments include equity securities, bonds, cash, and cash equivalents. The following is a listing of the System's foreign assets as of June 30, 2013. The listing includes $6.5 million of investments of domestic issuers which have been classified as domestic, but are denominated in a foreign currency.

Investment Types
(Expressed in Thousands)

Currency	Fair Value in U.S. Dollars	Equities	Fixed Income	Cash and Cash Equivalents
Australian Dollar	$ 35,151	$ 21,626	$ 13,373	$ 152
Brazilian Real	16,408	9,870	6,538	-
British Pound Sterling	75,748	74,198	886	664
Canadian Dollar	41,854	20,510	21,066	278
Danish Krone	9,975	9,975	-	-
Euro	273,543	235,207	22,247	16,089
Hong Kong Dollar	71,867	71,816	-	51
Indonesian Rupiah	19,421	11,936	7,485	-
Japanese Yen	99,730	99,516	-	214
Mexican Peso	3,746	-	3,746	-
New Zealand Dollar	18,118	-	18,118	-
Norwegian Krone	15,111	1,365	13,746	-
Philippine Peso	17,839	17,839	-	-
Singapore Dollar	21,070	17,105	3,964	1
South African Rand	3,479	3,479	-	-
South Korean Won	5,891	5,891	-	-
Swedish Krona	23,504	23,504	-	-
Swiss Franc	39,762	39,717	-	45
Thai Baht	10,248	10,248	-	-
Turkish Lira	10,963	10,951	-	12
Malaysian Ringgit	7,710	7,710	-	-
Nigerian Naira	2,419	2,419	-	-
United Arab Emirates Dirham	1,751	1,751	-	-
Total Foreign Currencies	$ 825,308	$ 696,633	$ 111,169	$ 17,506
Foreign Issued Investments Denominated in U.S. Dollars	303,220	261,672	41,548	-
Pooled International Investments Denominated in U.S. Dollars	251,426	251,426	-	-
Total	$ 1,379,954	$ 1,209,731	$ 152,717	$ 17,506

Derivatives

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels, or currency exchange rates. In June 1994, the Board adopted a formal written policy on the use of derivatives which is reviewed periodically and policy, as amended, was incorporated in the formalized investment policy adopted by the Board. This was during fiscal year 2007 and reviewed during fiscal year 2008. Some selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are stated in the manager's contract and are monitored on an ongoing basis. Derivatives serve a variety of useful purposes for the System, including the reduction of foreign exchange risk, the minimization of transaction costs and as a means of implementing value added strategies to enhance returns. If the use of derivatives in a portfolio strategy results in some leverage, that leverage is never permitted to expose the Fund to a loss greater than the amount committed to that strategy.

The following lists principal categories of derivatives and their uses during the year:

Category	Purpose
Foreign exchange forward contracts	Hedge currency risk of investments denominated in foreign currencies; enhance return
Exchange traded futures contracts	Reduce transaction costs; hedge equity market risk; control fixed income; counterbalance portfolio duration; enhance return
Exchange traded options contracts	Enhance return; reduce transaction costs
Total return equity swaps	Hedge equity market risk exposure

Generally, derivatives are subject both to market risk and counterparty risk. The derivatives utilized by the System typically have no greater risk than their physical counterparts, and in many cases are offset by exposures elsewhere in the portfolio (for example, a short S&P 500 futures contract partially hedging a long position in S&P 500 securities). Counterparty risk, the risk that the "other party" to a contract will default, is managed by utilization of exchange traded futures and options where practical (in which case the futures exchange is the counterparty and guarantees performance) and by careful screening of counterparties where use of exchange traded products is impractical or uneconomical.

Derivative securities are priced and accounted for at their fair value. For exchange traded securities such as futures and options, closing prices from the securities exchanges are used. Foreign exchange contracts are valued at the price at which the transaction could be settled by offset in the forward markets.

The Investment Committee monitors the System's derivative holdings on a regular basis to ensure that the derivatives used by managers of the System will not have a material adverse impact on its financial condition. Total derivative instruments at June 30, 2013 were not material to the system.

Risk and Uncertainty

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk inherent in investment securities, it is possible that changes in the values of investment securities will occur in the near term and that such change could affect the amounts reported.

Discretely Presented Component Units

Diamond State Port Corporation (DSPC)

At June 30, 2013, the carrying value and the bank balances of the DSPC's deposits were $5.6 million and $5.7 million, respectively. Of the bank balances, $250 thousand is insured by the Federal Deposit Insurance Corporation (FDIC). The remaining amount is not collateralized by the banks as the banks meet the criteria set by the State under the collateralization requirements.

DSPC's assets restricted for capital improvements were $19.9 million at June 30, 2013. These assets are invested in a mutual funds account with a Moody's rating of Aaa.

Delaware State University (DSU)

At June 30, 2013, the carrying value and bank balances of DSU's deposits were $18.6 million and $20.6 million, respectively. An additional $16.5 million of cash and cash equivalents related to unexpended State appropriations are held by the Office of the State Treasurer. There was no portion of the University's investment portfolio, excluding U. S. Government guaranteed obligations, which exceed 5% of the portfolio and there was no portion of the University portfolio that was invested in below investment grade securities. The University's $8.0 million in fixed income investments was not rated as of June 30, 2013 using the Standard and Poor's rating scale. DSU's investments at quoted market value were $16.9 million at June 30, 2013. In addition, DSU's two discretely presented component units' investments at quoted market value were $18.5 million at June 30, 2013.

Delaware State Housing Authority (DSHA)

As of June 30, 2013, the carrying value and the bank balances of DSHA's deposits were $44.8 million and $46.1 million, respectively, all of which are insured by the FDIC.

Investment Policies

DSHA has an investment policy that encompasses all moneys related to the issuance of bonds, as well as all funds otherwise held by DSHA. DSHA seeks first and foremost to ensure safety of principal, and secondly, to attain the highest possible return available given the risk constraints.

DSHA is allowed to invest in certain qualified investments as defined by amended Subchapter II, Section 4013, Chapter 40, Title 31, of the Delaware Code and DSHA's formal investment policy. Subject to certain limitations, such as the credit ratings on bonds and the capitalization level of depositories, "qualified investments" include:

a. Obligations of or explicitly guaranteed by the U.S. or Delaware state governments.
b. Obligations of U.S. government-sponsored enterprises and U.S. government agencies and instrumentalities.
c. Obligations of depositories and other financial institutions.
d. Bankers' acceptances.
e. Commercial paper.
f. Money market mutual funds.
g. Corporate debt obligations.
h. The State of Delaware investment pool with the State Treasurer's Office.
i. Other investment arrangements made pursuant to an investment agreement authorized by a resolution of DSHA.

Certain federal funds administered by DSHA are subject to additional limitations within the

qualified investments listed above.

For those investments in the State of Delaware Investment Pool, the fair value of the pool shares is the same as the carrying value of the pool shares. The State of Delaware Cash Management Policy Board provides oversight for this pool.

Securitized mortgage loans consist of Federal National Mortgage Association (FNMA), Government National Mortgage Association (GNMA), and Federal Home Loan Mortgage Corporation (FHLMC) mortgage backed securities, which were pooled and securitized by a contract servicer utilizing Single Family Mortgage Program loans purchased by DSHA.

Investments

Investments are presented at fair value. Fair values are determined by quoted market prices based on national exchange prices for all investments, except for the State of Delaware Investment Pool. The State pool is valued based on the pool's share price. The table below lists the investments and the related maturities:

Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type	Fair Value	Book Value: Less than 1	1 - 5	5 - 10	10 - 20	20 - 30
U.S. Treasury Notes	$ 11,627	$ 3,350	$ 8,125	$ -	$ 208	$ -
US Treasury Strips	548	360	8	-	259	-
U.S. Treasury Bonds	26	-	-	-	19	-
U.S. Agencies	20,278	6,510	13,275	-	-	378
Commercial Paper	5,398	5,410	-	-	-	-
Corporate Notes	14,776	1,000	13,750	-	-	-
Investment Agreements	630	-	-	-	266	364
Money Market Savings Accounts	15,564	15,564	-	-	-	-
Bank Money Market Accounts	25,168	25,168	-	-	-	-
State of Delaware Investment Pool	10,736	10,736	-	-	-	-
Total Investments:	104,751	68,098	35,158	-	752	742
Securitized Mortgage Loans	606,955	-	-	-	-	578,910
Total Investments & Securitized Mortgage Loans	$ 711,706	$ 68,098	$ 35,158	$ -	$ 752	$ 579,652

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the DSHA's investment policy places limits on maturities for the various funds as follows:

a. Single Family Program Funds: Investment contracts for bond program funds should have a maturity that matches the final bond maturity to minimize reinvestment risk. Individual investments of bond program funds should match anticipated cash requirements or

provide sufficient liquidity to allow funds to be accessed to meet bond resolution requirements without incurring material principal losses.

b. Federal Program Funds: HUD funds held by DSHA should have a maximum maturity of one year. HUD-related funds held by DSHA (escrows, replacement reserves, residual receipts) shall have a maximum maturity of three years.

c. General Fund: The Operating Reserve Account, which is managed externally, should have a maximum maturity at the time of purchase of ten years. However, specific investments may be transferred into the account from time to time that may have a longer maturity. DSHA may further reduce the maximum maturity of the operating reserve investments from time to time.

d. Other DSHA funds should be invested with a maturity that matches, or is prior to, the anticipated time at which the funds will be needed.

e. DSHA investments (other than deposit accounts, money market fund shares, or deposits with the State Treasurer's Office) should have a fixed maturity date by which principal and accrued interest will be fully repaid. DSHA is not permitted to enter into investments that have an expected maturity date that can be extended, depending upon market conditions.

Credit Risk

DSHA's general investment policy is to make investments with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived. DSHA's investment policy limits its investment choices as mentioned above under Investments. For DSHA's Single and Multi-Family Programs, the investment rating must be equal or exceed the bond rating. DSHA's Operating Reserve Account has a specific credit quality requirement. Corporate debt obligations and shares of money market mutual funds shall have a long-term rating of AA and/or AA, respectively by Standard & Poor's (S&P) and Moody's at the time of purchase. As of June 30, 2013, DSHA's investments were rated as follows:

Ratings (S & P)
(Expressed in Thousands)

Investment Type	AAA	AA+	AA	AA-	A1+	A1	A2	U.S. Government Guaranteed
U.S. Treasury Notes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,627
U.S. Treasury Strips	-	-	-	-	-	-	-	548
U.S. Treasury Bonds	-	-	-	-	-	-	-	26
U.S. Agencies	-	20,303	-	-	-	-	-	-
Corporate Notes	764	965	6,159	6,888	-	-	-	-
Commercial Paper					1,748	1,745	1,905	-
Securitized Mortgage Loans	-	-	-	-	-	-	-	606,955
Total	$ 764	$ 21,268	$ 6,159	$ 6,888	$ 1,748	$ 1,745	$ 1,905	$ 619,156

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, DSHA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of DSHA's $104.8 million investment balance, $600 thousand represents deposits held by various Guaranteed Investment Contract (GIC) providers under investment agreements. These accounts are uninsured and uncollateralized. The funds are specifically identified for DSHA, but the custodial credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the GIC provider whose rating must equal or exceed that of the bond rating. The bank and savings money markets must be collateralized at 102% or greater by securities pledged and identified as held in DSHA's name. Although the State Investment Pool is not collateralized, the State's Cash Management Policy Board requires that investments in the pool meet certain ratings, investment types and maturity criteria. DSHA's investment policy does not limit the amount of securities that can be held by the counterparties.

NOTE 3 RECEIVABLES

All trade, loan and tax account receivables are recorded net of an allowance for uncollectible accounts. In the governmental fund financial statements, receivables that will not be available within 60 days of year-end are recorded as unearned revenue.

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable at June 30, 2013. Uncollectibility for taxes receivable primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

The State levies taxes on real property through its school districts. Each of the three counties of the State establishes the assessed values of real estate and bills and collects its own property taxes. Local school property taxes are levied by local school districts based on the assessed value of real estate, as determined by county taxation formulas. Taxes are levied on July 1 and are

payable on or before September 30. Taxes paid after the payable date are assessed a 6% penalty for nonpayment and 1% interest per month thereafter. Taxes are billed and collected by the counties with funds remitted to the local school district to be used for the local share of school operating costs and debt service on general obligation bonds issued for capital improvements. Receivables as of year-end for the State's individual funds, including the applicable allowances for uncollectible accounts, are as follows:

Receivables - Primary Government
Governmental Activities/Governmental Funds
(Expressed in Thousands)

	General Fund	Federal Funds	Local School District Funds	Total Receivables
Receivables:				
Taxes	$ 213,726	$ -	$ 34,859	$ 248,585
Accounts	350,796	106,228	345	457,369
Loans and Notes	50,423	261,836	-	312,259
Intergovernmental - Federal Grants	-	120,628	-	120,628
Total Receivables	614,945	488,692	35,204	1,138,841
Allowance for Doubtful Accounts	(400,839)	(94,838)	(174)	(495,851)
Total Receivables, Net	$ 214,106	$ 393,854	$ 35,030	$ 642,990
Amounts not Scheduled for Collection During the Subsequent Year	$ 103,810	$ 246,571	$ 22,471	$ 372,852

Receivables - Primary Government
Business-Type Activities/Proprietary Funds
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total Receivables
Receivables:				
Taxes	$ 49,444	$ -	$ -	$ 49,444
Interest	-	-	536	536
Accounts	32,684	11,804	17,449	61,937
Intergovernmental	1	-	27,058	27,059
Total Receivables	82,129	11,804	45,043	138,976
Allowance for Doubtful Accounts	(39,834)	(734)	-	(40,568)
Total Receivables, Net	$ 42,295	$ 11,070	$ 45,043	$ 98,408
Amounts not Scheduled for Collection During the Subsequent Year	$ -	$ -	$ -	$ -

Unearned Revenues

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Amounts considered unearned federal grant drawdowns are reported as unearned revenue.

The various components of unearned revenue and advances reported at year-end in the governmental funds are as follows:

Unearned Revenues
(Expressed in Thousands)

Unavailable		
Taxes Receivable	$	84,409
Loans and Notes Receivables		308,793
Intergovernmental		24,711
Accounts Receivables		45,715
Subtotal Unavailable		463,628
Advances		
Advance Park Reservation Fees		1,024
Federal Grant Advance Drawdowns		20,062
Subtotal Advances		21,086
Total Unearned Revenue	$	484,714

Discretely Presented Component Units

Delaware State Housing Authority (DSHA)

Total receivables as of June 30, 2013 are as follows:

(Expressed in Thousands)

Receivables:		
Mortgage Loans	$	258,946
Accrued Interest		50,391
Other Receivables		726
Grants Receivable		281
Total Receivables		310,344
Allowance for Doubtful Accounts		(1,077)
Total Receivables, Net	$	309,267
Amounts not Scheduled for Collection During the Subsequent Year	$	265,107

Mortgage loans receivable which total $258.9 million consist of single family and multi-family loans and are collateralized by first, second or third mortgages on the properties and in limited instances are guaranteed by corporate sponsors. Interest rates on the loans vary from 2.99% to 12.43% and loan maturities are between one and forty years depending on the type of mortgage loan issued.

NOTE 4 INTERFUND BALANCES AND TRANSFERS

(a) Due To/From to Other Funds

Receivables reported as "due from other funds" and the related payables reported as "due to other funds" represent amounts owed to State organizations by other organizations within the State primary government. Amounts receivable from or payable to other levels of government are reported as intergovernmental receivables or payables and are expected to be repaid within one year from the date of these financial statements. The composition of due from/due to balances at June 30, 2013, expressed in thousands, is as follows:

Receivable Fund	Payable Fund	Amount
Governmental Funds		
General	Federal	$ 20,922
Federal	General	16,833
Primary Government		
Unemployment	General	1,524
Lottery	General	677

The amounts due from the Federal Fund are recorded for borrowings to eliminate negative balances in the State Investment Pool. The amount for the Federal Fund is created by expenditures relating to reimbursement type federal grant revenues. These costs result in a negative balance in the State Investment Pool. The amounts due to the Federal Fund are for reimbursements for grant expenses for over expending federal government grants.

The amount due to the Lottery Fund (reported as an internal balance on the statement of net position), represents overpayments of profits required by law to be transferred to the General Fund.

The amount due to the Unemployment Fund is from interest that the General Fund owes the Unemployment Fund due to an overpayment of a temporary borrowing.

(b) Transfers In From/Out to Other Funds

Transfers in and transfers out from/to other funds in the statement of revenues, expenditures and changes in fund balance and the statement of revenues, expenses and changes in fund net position, proprietary funds represent transfers between funds. Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 3) move profits from the Lottery Fund, as required by State law, and 4) move bond proceeds from

Capital Projects to the General Fund to cover expenses paid by the General Fund.

A schedule of transfers in and transfers out for the year ended June 30, 2013 is presented below (expressed in thousands):

	Transfers In							
	General	Federal	Local School District	Capital Projects	Unemployment	Lottery	DelDOT	Total
Transfers Out								
General	$ -	$16,833	$13,555	$ -	$ 2,089	$ -	$43,257	$ 75,734
Federal	1,675	-	37,998	-	-	-	-	39,673
Local School	102,322	-	-	-	-	-	-	102,322
Capital Projects	133,296	-	-	-	-	-	-	133,296
Unemployment	-	-	-	-	-	-	-	-
Lottery	276,797	-	-	-	-	-	-	276,797
DelDOT	6,793	-	-	-	-	-	-	6,793
Total	$ 520,883	$16,833	$51,553	$ -	$ 2,089	$ -	$43,257	$ 634,615

NOTE 5 GENERAL OBLIGATION BONDS

General obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for State administrative operations, public and higher education, public and mental health, corrections and conservation purposes and for maintenance and construction of highway facilities.

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which the bonds are issued provide that all bonds issued shall be direct obligations of the State; that is, the bonds are secured by the pledge of the full faith and credit of the State. General obligation bonds are redeemed over a period not to exceed 20 years, generally from available resources in the general fund. Accordingly, the State has generally issued 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at redemption prices not to exceed 100% of par value.

On February 28, 2013, the State issued $336.3 million of its general obligation bonds maturing between February 1, 2024 and February 1, 2033. Of the $336.3 million issued, Series A Bonds, at $111.3 million, were issued to refund higher priced bonds resulting in a net present value savings of $14.4 million, or 11.7% of the principal refunded. Series B Bonds, at $225.0 million, were issued as new money. The bonds of both series bore coupons of 2% and 5% and yield between .16% and 2.93%.

The refunding Series 2013 resulted in an economic gain of $13.3 million and a debt service cash savings over the next nine years of $14.4 million.

Bonds issued and outstanding totaled $1,755.0 million at June 30, 2013. Of this amount, $545.7 million is supported by property taxes collected by the local school districts. During fiscal year 2013, the local school district funds transferred $64.3 million of property tax revenue to the State to meet the required debt service on their share of the debt.

The State is authorized to issue an additional $162.5 million of general obligation bonds at June 30, 2013. Interest rates and maturities of the outstanding general obligation bonds are detailed as follows:

General Obligation Bonds
(Expressed in Thousands)

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding at June 30, 2013
220	GO 2013B	2.000% - 5.000%	2033	$ 225,000
219	GO 2013A3	2.000% - 5.000%	2025	35,940
218	GO 2013A2	4.000% - 5.000%	2024	40,210
217	GO 2013A1	2.000% - 5.000%	2026	35,180
216	GO 2011A2	2.000%-5.000%	2031	162,675
215	GO 2011A1	2.000%-5.000%	2031	85,380
214	GO 2010D	4.550%	2029	59,580
213	GO 2010C	3.100%-4.600%	2030	115,775
212	GO 2010B2	5.00%	2023	89,250
211	GO 2010B1	2.000%-4.000%	2024	25,000
210	GO 2010A2	2.000%-3.000%	2018	22,315
209	GO 2010A1	1.500%-5.000%	2024	102,340
208	GO 2009D	3.700%-5.300%	2029	179,315
207	GO 2009C2	2.000%-3.000%	2024	37,205
206	GO 2009C1	3.000%-5.000%	2027	247,710
205	GO 2009B	4.750%-5.000%	2026	73,750
204	GO 2009A2	4.750%-5.000%	2017	5,275
203	GO 2009A1	4.750%-5.000%	2029	59,125
202	GO 2008B	4.750%-5.000%	2016	38,145
201	GO 2008A	3.000%-5.000%	2016	3,510
200	GO 2007A	4.000%-5.000%	2027	27,850
199	GO 2006C	0%	2022	1,433
198	GO 2006B	4.000%-5.500%	2026	22,395
197	GO 2006A	3.75%-4.500%	2026	4,845
196	GO 2005D	3.50%-5.0%	2025	8,600
195	GO 2005C	5%	2016	45,335
192	QZAB 2004B	0%	2020	224
190	QZAB 2003D	0%	2018	908
186	QZAB 2002B	0%	2016	760
		Total, Gross		1,755,030
		Plus: Unamortized Bond Premium		186,080
		Total General Obligation Bonds		$ 1,941,110

The following table sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2013:

Total General Obligation Bonds
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2014	$ 154,695	$ 74,945	$ 229,640
2015	152,540	69,110	221,650
2016	146,530	62,145	208,675
2017	141,355	55,320	196,675
2018	129,135	48,565	177,700
2019-2023	479,475	173,972	653,447
2024-2028	358,630	79,674	438,304
2029-2033	192,670	15,429	208,099
Total	$ 1,755,030	$ 579,160	$ 2,334,190

Changes in general obligation bonded debt during the year ended June 30, 2013 are summarized in Note 10.

In prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and has been removed as a liability from the government-wide financial statements. At June 30, 2013, a total of $355.6 million of defeased bonds were outstanding.

NOTE 6 REVENUE BONDS

Revenue Bonds

The State Constitution empowers certain State agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. These bonds pledge income derived from acquired or constructed assets or some other stream of revenues to retire the debt and pay related interest.

Primary Government

In August, 2011, pursuant to the Delaware Energy Act, 29 Del. C. §8059, the Sustainable Energy Utility, Inc. (the "SEU"), a Delaware nonprofit corporation created by and for the benefit of the State issued $67.4 million of its Sustainable Energy Utility, Inc. Energy Efficiency Revenue Bonds, Series 2011 (the "SEU Bonds"). Interest rates on bonds outstanding range from 2.0% to 5.0%. Of the total amount, $56.2 million of the SEU Bonds were issued to finance energy conservation measures for multiple State agencies and the remaining amount of $11.2 million was issued on behalf of Delaware State University. Under separate Installment Payment

Agreements, each agency and Delaware State University, is obligated to make installment payments to the SEU in accordance with the Energy Performance Contracting Act, 29 Del. C. §6971. Further, each agency and Delaware State University separately entered into Guaranteed Energy Savings Agreements with various energy services companies, which guaranteed that the savings achieved will be sufficient to cover the financing costs associated with the SEU bonds upon completion of the energy conservation measures. In the event that savings are not realized, the energy services companies will be held responsible for the deficiency.

The SEU Bonds are limited obligations of the SEU, secured by the trust estate and payable only from amounts appropriated by the State that are eligible for payment under the Installment Payment Agreements. No funds appropriated to any agency for any purpose are available to pay the Installment Payments of any other agency or Delaware State University.

The final maturity of the SEU bonds is September 15, 2034. As of June 30, 2013, $28.4 million of the SEU Bonds issued to finance projects at State agencies was unspent and held by Citibank, the bond underwriter.

Sustainable Energy Utility Revenue Bonds

(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2014	$ 1,635	$ 2,549	$ 4,184
2015	1,610	2,509	4,119
2016	3,045	2,439	5,484
2017	2,915	2,324	5,239
2018	3,055	2,179	5,234
2019-2023	10,155	9,401	19,556
2024-2028	12,730	6,705	19,435
2029-2033	15,870	3,310	19,180
2034-2035	5,155	255	5,410
Total	$ 56,170	$ 31,671	$ 87,841

DelDOT Fund

Delaware Transportation Authority (Authority)

The Authority is subject to oversight by the DelDOT and is included in the DelDOT Fund. The Authority assists in the implementation of the State's plans and policies regarding the coordination and development of a comprehensive, balanced transportation system for the State. It has the power to develop a unified system of air, water, vehicular and specialized transportation in the State. The Authority includes the Transportation Trust Fund and the Delaware Transit Corporation. The Secretary of the Department of Transportation, with consent of the Governor, appoints the Authority's Director.

To assist the Authority in financing a unified transportation system, the State created a

Transportation Trust Fund (the Trust Fund) within the Authority which receives all receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes and motor vehicles fees imposed and collected by the State and deposited in the Trust Fund, and revenue from the Delaware Turnpike, which the Authority owns and operates. The Authority also has the power to issue bonds, with legislative authorization, to finance improvements to the State's transportation system. Debt issued by the Authority does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenue, motor vehicle document fees, and motor vehicle registrations. The Authority may apply Trust Fund revenue in excess of debt service requirements for transportation projects, subject to legislative authorization, and may pledge any or all of this revenue to secure financing for these projects.

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore not reported as a liability. At June 30, 2013, the amount of defeased debt outstanding amounted to $195.2 million.

The Authority has a total of $235.6 million in authorized but unissued revenue bonds at June 30, 2013. Bonds outstanding at June 30, 2013 amounted to $1,007.1 million and are presented as follows:

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding At June 30, 2013
Transportation System Senior Revenue Bonds - Series			
2003	5.00%	2023	$ 35,315
2004	4.0% - 5.0%	2024	58,385
2005	4.25% - 5.0%	2025	58,480
2006	3.5% - 5.0%	2026	101,610
2007	4.0% - 5.0%	2021	61,805
2008	4.0% - 5.0%	2028	66,135
2008	4.0% - 5.0%	2029	106,200
2009	5.00%	2029	100,125
2010	4.0% - 5.0%	2019	40,745
2010	3.95% - 5.80%	2030	72,120
2012	3.0% - 5.0%	2024	222,870
Transportation System Grant Anticipation Bonds			
2010 Series	3.00% - 5.00%	2025	99,715
	Total, Gross		1,023,505
	Less: Deferred Amount on Refunding		(16,374)
	Total, Net		1,007,131
	Less: Current Portion of Debt Outstanding		(72,544)
	Long-term Portion of Debt Outstanding		$ 934,587

Future debt service requirements for the Authority's outstanding bonds are shown in the table below:

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2014	$ 75,205	$ 47,162	$ 122,367
2015	77,655	43,465	121,120
2016	75,350	39,754	115,104
2017	72,840	36,243	109,083
2018	72,105	32,799	104,904
2019-2023	363,055	110,948	474,003
2024-2028	228,925	37,588	266,513
2029-2033	58,370	3,647	62,017
Total	$ 1,023,505	$ 351,606	$ 1,375,111

The transportation system revenue bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the trust funds. Summary financial information as of and for the year ended June 30, 2013 for the trust funds, which is the segment of DelDOT that supports the revenue bonds, is presented below and on the following page:

Condensed Statement of Net Position
(Expressed in Thousands)

Assets:	
Current Assets	$ 232,884
Capital Assets	1,327,286
Other Assets	85,195
Total Assets	$ 1,645,365
Liabilities:	
Current Liabilities	139,277
Noncurrent Liabilities	978,804
Total Liabilities	1,118,081
Net Position:	
Net Investment in Capital Assets	315,013
Unrestricted	52,109
Restricted	160,162
Total Net Position	527,284
Total Liabilities and Net Position	$ 1,645,365

Condensed Statement of Revenues, Expense and Changes in Net Position
(Expressed in Thousands)

Operating Revenues (Pledged Against Bonds)	$ 385,698
Other Operating Revenues	55,366
Depreciation Expense	(192)
Other Operating Expenses	(343,981)
Operating Income	96,891
Nonoperating Revenues (Expenses):	
Investment Income (Pledging Against Bonds)	2,220
Other Investment Income (Loss)	8,841
Interest Expense	(39,224)
Transfer from State General Fund	43,257
Change in Net Position	111,985
Beginning Net Position	415,299
Ending Net Position	$ 527,284

Condensed Statement of Cash Flows
(Expressed in Thousands)

Net Cash Provided by (Used In):	
Operating Activities	$ 95,211
Noncapital Financing Activities	43,257
Capital and Related Financing Activities	(213,445)
Investing Activities	99,600
Net Increase	24,623
Beginning Cash and Cash Equivalents	24,530
Ending Cash and Cash Equivalents	$ 49,153

The State has pledged turnpike, motor fuel tax, and motor vehicle fee revenues to the Trust Fund in order to provide additional means to finance the maintenance and development of the State's highway transportation system, as well as security for the repayment of the outstanding revenue bonds of the Authority. Proceeds from the revenue bonds were used to finance infrastructure maintenance, preservation, and construction related projects. The revenue bonds are payable solely from these pledged revenue streams and are not backed by the faith and credit of the State or any such political subdivision. Annual principal and interest payments on the revenue bonds are expected to require less than 35% of pledged revenues. The total principal and interest remaining to be paid on the revenue bonds as of June 30, 2013 was $1.4 million. Principal and interest paid on the revenue bonds for the year ended June 30, 2013 was $131.3 million. Total pledged revenues for the year ended June 30, 2013 was $387.9 million.

Discretely Presented Component Units

Debt issued by the following component units is not secured by the full faith, credit and taxing power of the State.

Delaware State Housing Authority (DSHA)

DSHA is authorized to issue bonds and notes, with the approval of the State, in order to exercise its powers. These bonds and notes are secured solely by the revenues, loans, and other pledged assets under the related Bond Indenture of DSHA.

DSHA has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of DSHA and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 0.95% to 7.75% with maturities of such bonds up through January 1, 2049.

On February 28, 2013, the Authority issued $58.2 million of Single Family Revenue Bonds (SFMRB) 2013-1 pursuant to the New Issue Bond Program (NIBP) established jointly by Fannie Mae, Freddie Mac, the Federal Housing Finance Agency, and the U. S. Department of Treasury (US Treasury) under which the US Treasury provided funding for bond issuance. The proceeds from the sale were used to refund bonds held within the SFMRB 2011-1(NIBP) bond issue. Also, the remaining SFMRB 2011-1 (NIBP) bonds were transferred into the SFMRB 2013-1 (NIBP) bond issue along with the associated Mortgage Backed Securities of that issue.

On June 26, 2013, the Authority issued $49.9 million of Single Family Mortgage Revenue Bonds 2013 Series A. The proceeds from the sale were used to provide low rate mortgages to first-time homebuyers.

Outstanding bonds at June 30, 2013 amounted to $639.3 million. Future debt service requirements for DSHA's bonds are shown on the following table:

Delaware State Housing Authority Revenue Bonds
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2014	$ 14,142	$ 25,473	$ 39,615
2015	13,220	24,966	38,186
2016	13,610	24,452	38,062
2017	14,045	23,912	37,957
2018	14,520	23,319	37,839
2019-2023	80,205	106,015	186,220
2024-2028	97,692	84,884	182,576
2029-2033	92,186	62,751	154,937
2034-2038	118,734	40,337	159,071
2039-2043	156,935	18,974	175,909
2044-2048	14,830	2,331	17,161
2049	9,163	23	9,186
Total	$ 639,282	$ 437,437	$ 1,076,719

Delaware State University (DSU or the University)

Revenue bonds payable at June 30, 2013 are as follows:

Revenue Bonds Payable
(Expressed in Thousands)

Revenue Bonds	$	3,126
Revenue Refunding Bonds		47,844
Energy Efficiency Revenue Bonds		12,089
Revenue Refunding Bonds Series 2012		32,739
Student Housing Foundation Bonds		15,281
Total Revenue Bonds Outstanding as of June 30, 2013	$	111,079

On May 6, 1999, the University issued revenue refunding bonds in the amount of $15.9 million (par value) through the DEDA. The bonds are due on October 1, 2017 and are secured by un-appropriated gross revenues of the University.

The Bond Trust Indenture requires the University to maintain a debt service reserve fund equal to the maximum annual debt service on all bonds outstanding under the Indenture. The University meets this requirement by providing for the deposit through a surety bond in the Debt Reserve Fund. This bond was obtained from MBIA Insurance Corporation in the amount of $1.5 million and expires on October 1, 2017. The University has pledged all operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding.

On March 1, 2012 the University issued revenue refunding bonds in the amount of $32.1 million (par value) through the DEDA which were in part used to refund certain maturities of Series 1999 bonds. The issuance of Series 2012 bonds and refunding resulted in a $2.7 million reduction in Series 1999 bond obligations. As of June 30, 2012, $3.1 million including less than a million of unamortized bond discount remained outstanding on the 1999 Revenue Bonds. The refunding of the callable portion of the Series 1999 Bonds resulted in a net present value savings of $.1 million.

On December 20, 2007 the University issued revenue refunding bonds in the amount of $47.6 million (par value) through the DEDA. The bonds are interest only through October 1, 2018; due on October 1, 2036; and are secured by un-appropriated gross revenues of the University. The 2007 bonds were being issued as “Additional Bonds” under the Indenture, secured equally and ratable with all other Bonds issued and outstanding under the Indenture and any Alternative Indebtedness as provided in the Indenture and in the Loan Agreement. The 2007 Bonds are insured by MBIA Insurance Corporation. The University has pledged all operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding. The bonds were secured for the construction of a new student union, a swimming pool and a student wellness/recreation center. As of June 30, 2013, $47.8 million including $265 thousand of unamortized bond premium remained outstanding on the 2007 revenue bonds.

The University entered into a Guaranteed Energy Savings Agreement with Johnson Controls, Inc. in the amount of $11.3 million. In connection with this agreement and to fund energy efficiency projects, energy efficiency revenue bonds were issued through the SEU on August 1, 2011. The bonds are due September 15, 2032 and are limited obligations of the University, payable only from amounts appropriated by the State that are eligible for payment of the Installment Payments pursuant to the Energy Performance Contracting Act. The 2011 bonds are equally and ratably secured by the trust estate, and failure of the State to appropriate each year sufficient available funds will cause insufficient funds to be deposited into the bond fund to pay all principal and interest on the bonds when due. Johnson Controls, Inc. guaranteed that the savings achieved will be sufficient to cover the financing cost associated with the bond, upon completion of the energy upgrades to various buildings and systems throughout the University. In the event that the savings are not realized, Johnson Controls, Inc. will be responsible for the amount of that deficiency. As of June 30, 2013, $12.1 million including $823 thousand of unamortized bond premium remained outstanding on the 2011 energy efficiency bonds.

On March 1, 2012 the University issued revenue refunding bonds in the amount of $32.1 million (par value) through the DEDA. The bonds are due October 1, 2036 and are secured by a pledge of certain un-appropriated revenues of the University. The 2012 bonds were issued as "Additional Bonds" under the Indenture, secured equally and ratable with all other Bonds issued and outstanding under the Indenture and any Alternative Indebtedness as provided in the Indenture and in the Loan Agreement. The University has pledged all operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding. The proceeds of the 2012 bonds were used to finance: (1) the refunding of certain maturities of The Delaware Economic Development Authority Revenue Refunding Bonds (Delaware State University Project) Series 1999; (2) the purchase of the University Village, a four building, 628 bed student housing facility and dining hall located on the campus of the University, the construction of which was financed by the Kent County, Delaware Variable Rate Demand Student Housing Revenue Bonds (Delaware State University Student Housing Foundation Project) Series 2004B; (3) the funding of any required reserve funds relating to the 2012 Bonds; and (4) the costs of issuance and any credit enhancement of the 2012 Bonds. As of June 30, 2013, $32.7 million including $1.8 million of unamortized bond premium remained outstanding on the 2012 revenue bonds.

Remaining maturities and interest due relating to the university's revenue bonds at June 30, 2013, follows:

Delaware State University Revenue Bonds
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2014	$ 1,640	$ 4,101	$ 5,741
2015	2,030	4,054	6,084
2016	2,100	3,981	6,081
2017	2,230	3,886	6,116
2018	2,370	3,778	6,148
2019 - 2023	14,505	17,361	31,866
2024 - 2028	17,955	13,925	31,880
2029 - 2033	22,480	9,528	32,008
2034 - 2038	20,980	4,184	25,164
2039 - 2042	6,650	452	7,102
Total	$ 92,940	$ 65,250	$ 158,190
Plus Unamortized Bond Premiums and Discount	2,858		
Total Revenue Bonds Payable	$ 95,798		

The Delaware State University Housing Foundation (Housing Foundation), a component unit of DSU refinanced its Series 2000A and 2002A Bonds (the Prior Bonds) with a loan payable in an aggregate amount of $18.4 million funded with proceeds from the issuance of student housing revenue bonds, Series 2004A (Delaware State University Student Housing Foundation Project). Pursuant to the trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004A Bonds are restricted to refunding the Prior Bonds, to fund a debt service reserve fund for the Series 2004A Bonds, to fund an operating reserve fund for the Series 2004A Bonds, and to pay a portion of the costs of issuance of the Series 2004A Bonds. In February 2004, the Housing Foundation defeased the tax-exempt series 2000A and the tax exempt series 2002A term bonds at face value. The liability of the Housing Foundation under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee. The first monthly interest payment on the Series 2004A Bonds began on July 1, 2004. Total accrued interest as of June 30, 2013 was $381 thousand.

Maturities of long-term debt at June 30, 2013 are as follows:

Delaware State University Housing Foundation Revenue Bonds
(Expressed in Thousands)

Fiscal Year	Interest Rates	Principal Amount	Interest Amount	Balance Outstanding At June 30, 2013
2014	3.70%	$ 420	$ 753	$ 1,173
2015	4.00%	435	736	1,171
2016	4.00%	455	717	1,172
2017	4.20%	475	698	1,173
2018	4.30%	495	676	1,171
2019 - 2023	4.40-5.0%	2,840	2,999	5,839
2024 - 2028	5.00%	3,615	2,197	5,812
2029 - 2033	5.0-5.125%	4,610	1,171	5,781
2034 - 2042	5.125%	2,195	114	2,309
Total, Gross		15,540	$ 10,061	$ 25,601
Less: Unamortized Bond Discount		(259)		
Total Bonds Payable		$ 15,281		

NOTE 7 LOANS AND NOTES PAYABLE

Primary Government

Banc of America Master Lease/Purchase

In May, 2011 the State entered into a Master Lease/Purchase Agreement with Banc of America Public Capital Corporation (BOA) for a two year period on behalf of all its State Agencies to acquire equipment including all installation costs with a maximum aggregate amount of principal components for this equipment not to exceed $50 million. Each individual equipment lease will establish the duration of the lease agreement with the interest rate determined using a percentage of a like term U.S. Treasury as quoted by the Federal Reserve.

On April 15, 2013, the State executed an agreement under the BOA Master Agreement in the amount of $18.5 million for the purchase and installation of equipment for the Red Clay Consolidated School District. Beginning October 15, 2014, principal and interest payments are due each April 15 and October 15. The interest rate for the term of the agreement is 2.91% and the loan matures April 15, 2035.

The future maturities of principal and interest payments on the agreement are as follows:

Red Clay Consolidated School District Agreement
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2014	$ (542)	$ 542	$ -
2015	(144)	555	411
2016	329	556	885
2017	406	546	952
2018	454	534	988
2019-2023	3,070	2,434	5,504
2024-2028	4,697	1,886	6,583
2029-2033	6,797	1,071	7,868
2034-2035	3,433	127	3,560
Total	$ 18,500	$ 8,251	$ 26,751

On April 15, 2013, the State executed an agreement under the BOA Master Agreement in the amount of $10.6 million for the purchase of helicopters for the Delaware State Police. Beginning April 15, 2013, principal and interest payments are due each April 15 and October 15. The interest rate for the term of the agreement is 2.03% and the loan matures October 15, 2022.

The future maturities of principal and interest payments on the agreement are as follows:

Delaware State Police Agreement
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2014	$ 970	$ 199	$ 1,169
2015	989	179	1,168
2016	1009	159	1,168
2017	1030	138	1,168
2018	1051	117	1,168
2019-2023	5,001	257	5,258
Total	$ 10,050	$ 1,049	$ 11,099

Discretely Presented Component Units

Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2013 are shown below:

Diamond State Port Corporation
Loans and Notes Payable
(Expressed in Thousands)

Transportation Trust Fund Loan	$ 18,579
City of Wilmington Port Debt Service Notes	5,348
Delaware River and Bay Authority	2,780
Total	$ 26,707

Transportation Trust Fund Loan

In November 2001, DSPC entered into a loan agreement with DelDOT. DSPC borrowed $27.5 million. The funds were used to repay the balances in full of the original Delaware River and Bay Authority Note and the Wilmington Trust Company Note, and, at a discount, the City of Wilmington Deferred Payment Note. The interest rate was 3.99% during 2013. The loan matures March 2029.

Interest expense charged to operations in 2013 was $800 thousand.

The future maturities of principal and interest payments on the Transportation Trust Fund Loan are as follows:

Transportation Trust Fund Loan
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2014	$ 888	$ 740	$ 1,628
2015	923	704	1,627
2016	960	667	1,627
2017	999	629	1,628
2018	1039	589	1,628
2019-2023	5,855	2,284	8,139
2024-2028	7,127	1,012	8,139
2029	788	26	814
Total	$ 18,579	$ 6,651	$ 25,230

City of Wilmington Note

In 1995, in consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington (the City), Delaware, DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of $39.9 million and Port Debt Service Notes with an original face amount of $51.1 million. These notes are secured by a first lien on substantially all of the DSPC's assets. These notes obligate DSPC to pay the City amounts that generally represent the outstanding principal balance of certain DSPC-related City general obligation bonds. The interest rates on the City bonds range from 3.2% to 6.4%.

Principal and interest payments made on the note during 2013 were $600 thousand and $300 thousand, respectively.

The future maturities of principal and interest payments on the Port Debt Service Notes are as follows:

Port Debt Service Note
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2014	$ 256	$ 200	$ 456
2015	701	233	934
2016	742	195	937
2017	683	157	840
2018	253	136	389
2019-2023	2,592	353	2,945
Subtotal	5,227	1,274	6,501
Deferred Gain on Refunding	121	-	121
Total	$ 5,348	$ 1,274	$ 6,622

Delaware River and Bay Authority (DRBA) Obligation

On March 1, 2005, DSPC entered into an agreement with the DRBA whereby the DSPC agreed to lease to the DRBA land and a warehouse, located at the Port, for twenty years. The rent for the entire twenty-year term of the lease was $4.0 million, to be paid in advance. Simultaneously, DSPC and the DRBA entered into an operating agreement in which DSPC agreed to make guaranteed payments to the DRBA, at the beginning of each month, starting with the date upon which substantial completion has occurred, for a period of twenty years, totaling $4.0 million plus interest, which ranges from 1.5% to 5.32%.

This transaction is accounted for as a loan from DRBA secured by revenue from warehouse operations. DSPC began making guaranteed payments on July 1, 2007.

Interest expense incurred on this obligation was less than a million during 2013.

The future maturities of principal and interest payments on the DRBA obligation are as follows:

Delaware River and Bay Authority Obligation
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2014	$ 181	$ 81	$ 262
2015	186	75	261
2016	192	70	262
2017	197	64	261
2018	158	104	262
2019-2023	926	381	1,307
2024-2027	940	105	1,045
Total	$ 2,780	$ 880	$ 3,660

NOTE 8 LEASE COMMITMENTS

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating $172.6 million, of which $147.3 million relates to property leases and $25.3 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Lease payments for fiscal year 2013 were approximately $33.1 million, of which $24.3 million was for office space and $8.8 million, was for equipment. The equipment leases held by the State consists mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include $4.0 million for fleet vehicles and data processing equipment for the Office of Management and Budget, $2.7 million for helicopters and computer hardware for Safety and Homeland Security, and $1.7 million for data processing equipment for the Department of Education. Significant annual real estate rentals include $6.1 million for leases for Health and Social Services facilities, $2.2 million for the Department of Services for Children, Youth and Their Families, $2.9 million for office space for the Department of Correction, and $3.1 million for the Department of Labor.

Future minimum lease commitments for operating leases as of June 30, 2013 are shown in the following table:

Lease Commitments
(Expressed in Thousands)

Fiscal Year	Operating Leases
2014	$ 28,659
2015	27,027
2016	23,297
2017	21,399
2018	19,227
2019-2023	44,171
2024-2028	7,747
2029-2033	1,067
Total	$ 172,594

NOTE 9 OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the government-wide financial statements and in the proprietary fund financial statements. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2013. Employees earn from 1.25 to 1.75 days of vacation leave per month depending on years of service. Employees or their estates are paid for unused vacation upon termination of employment. Employees earn 1.25 days of sick leave per month. The State's obligation for sick leave credit is a maximum of 45 workdays. $172.7 million has been accrued for the Governmental Activities and $14.2 million in the Business-type Activities for the total compensated absences liability. The current portion of the long-term obligation for compensated absences is $13.6 million in the Governmental Activities and $ 5.0 Million in the Business-type Activities. Approximately $147.4 million (85.4%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately $10 million (5.8%) and $15.3 million (8.8%) will be paid with Federal Funds and Local School District Funds, respectively.

The State has recorded $95.0 million relating to the accrual of the obligation for escheated (abandoned) property of which $19.0 million was recorded as the current portion.

The State has incurred obligations relating to scholarship and physician loan repayment programs, resulting in an additional long-term obligation of $3.6 million, of which $1.3 million was recorded as the current portion.

NOTE 10 CHANGES IN LONG-TERM OBLIGATIONS

The following table provides a summary of changes in long-term obligations of the primary government for the year ended June 30, 2013:

Changes in Long-Term Obligations
Primary Government
(Expressed in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Net Pension Obligation (Note 15)	$ 118.0	$ 11.5	$ (10.4)	$ 119.1	$ -
Other Postemployment Benefits (Note 14)	1,496.5	440.4	(254.9)	1,682.0	-
Compensated Absences	166.9	18.6	(12.8)	172.7	13.6
Claims and Judgments (Notes 13 and 19)	158.4	46.1	(37.3)	167.2	37.4
Escheat Payable	95.0	13.2	(13.2)	95.0	19.0
Notes Payable (Note 7)	-	29.1	(0.6)	28.5	1.0
Pollution Remediation Obligations (Note 19)	29.8	1.6	(3.8)	27.6	9.2
Bonds Payable:					
General Obligation Bonds (Note 5)	1,696.4	336.3	(277.7)	1,755.0	154.7
Bond Issue Premium, Net of Accumulated Amortization	156.8	44.6	(15.4)	186.0	15.4
Revenue Bonds (Note 6)	56.2	-	-	56.2	1.6
Physician and Scholarship Programs	5.2	1.4	(3.0)	3.6	1.3
Governmental Activities Long-term Liabilities	$ 3,979.2	$ 942.8	$ (629.1)	$ 4,292.9	$ 253.2
Business-type Activities:					
Other Postemployment Benefits (Note 14)	$ 145.9	$ 40.1	$ (15.1)	$ 170.9	$ -
Compensated Absences	16.8	0.2	(2.8)	14.2	5.0
Claims and Judgments (Notes 13 and 19)	3.0	-	(3.0)	-	-
Pollution Remediation Obligations (Note 19)	5.4	-	(1.4)	4.0	1.3
Liabilities Payable from Restricted Assets	11.7	4.6	(3.9)	12.4	2.5
Bonds Payable:					
General Obligation Bonds	0.4	-	(0.2)	0.2	0.1
Revenue Bonds	1,087.7	-	(80.6)	1,007.1	72.5
Bond Issue Premium, Net of Accumulated Amortization	68.5	-	(12.8)	55.7	11.8
Business-type Activities Long-term Liabilities	$ 1,339.4	$ 44.9	$ (119.8)	$ 1,264.5	$ 93.2

NOTE 11 NO COMMITMENT DEBT (NOT INCLUDED IN FINANCIAL STATEMENTS)

The State, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying

financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2013 for these entities amounted to $687.2 million and $670.2 million, respectively.

NOTE 12 CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2013 were as follows:

Capital Assets
(Expressed in Thousands)

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated				
Land	$ 447,812	$ 11,927	$ (152)	$ 459,587
Easements	77,736	2,014	-	79,750
Construction-In-Progress	244,783	203,284	(88,881)	359,186
Total Capital Assets, Not Being Depreciated	770,331	217,225	(89,033)	898,523
Capital Assets, Being Depreciated				
Vehicles	79,703	6,811	(4,788)	81,726
Buildings	3,514,526	85,140	(834)	3,598,832
Equipment	96,245	6,758	(3,505)	99,498
Land Improvements	217,523	8,948	(141)	226,330
Computer Software	58,171	7,547	-	65,718
Total Capital Assets Being Depreciated	3,966,168	115,204	(9,268)	4,072,104
Less Accumulated Depreciation For:				
Vehicles	(62,899)	(5,108)	4,788	(63,219)
Buildings	(1,097,670)	(78,849)	280	(1,176,239)
Equipment	(71,777)	(4,362)	3,199	(72,940)
Land Improvements	(61,919)	(11,169)	104	(72,984)
Computer Software	(24,701)	(12,213)	-	(36,914)
Total Accumulated Depreciation	(1,318,966)	(111,701)	8,371	(1,422,296)
Total Capital Assets, Being Depreciated, Net	2,647,202	3,503	(897)	2,649,808
Governmental Activities Capital Assets, Net	$ 3,417,533	$ 220,728	$ (89,930)	$ 3,548,331

Capital Assets
(Expressed in Thousands)

Business-type Activities Lottery	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital Assets, Being Depreciated				
Computer Equipment & Software	$ 1,395	$ -	$ -	$ 1,395
Total Capital Assets Being Depreciated	1,395	-	-	1,395
Less Accumulated Depreciation	(1,395)	-	-	(1,395)
Total Capital Assets, Being Depreciated, Net	$ -	$ -	$ -	$ -

Capital Assets
(Expressed in Thousands)

Business-type Activities DelDOT	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital Assets, Not Being Depreciated				
Land	$ 276,761	$ 7,115	$ -	$ 283,876
Infrastructure	3,564,347	105,903	-	3,670,250
Construction In Progress	2,487	653	-	3,139
Total Capital Assets, Not Being Depreciated	3,843,595	113,671	-	3,957,266
Capital Assets, Being Depreciated				
Buildings & Improvements	104,837	4,801	-	109,638
Furniture & Equipment	254,506	28,137	(13,743)	268,900
Total Capital Assets, Being Depreciated	359,343	32,938	(13,743)	378,538
Less Accumulated Depreciation For:				
Buildings & Improvements	(31,112)	(3,255)	-	(34,367)
Furniture & Equipment	(136,973)	(22,077)	12,727	(146,323)
Total Accumulated Depreciation	(168,085)	(25,332)	12,727	(180,690)
Total Capital Assets, Being Depreciated, Net	191,258	7,606	(1,016)	197,848
Total Capital Assets	$ 4,034,853	$ 121,277	$ (1,016)	$ 4,155,114
Business-type Activities Capital Assets, Net	$ 4,034,853	$ 121,277	$ (1,016)	$ 4,155,114

Depreciation expense was charged to the following primary government functions as follows:

Depreciation Expense
(Expressed in Thousands)

Governmental Activities:		
General Government	$	25,527
Health and Children's Services		6,239
Judicial and Public Safety		14,630
Natural Resources and Environmental Control		4,352
Labor		99
Education		60,854
Total Depreciation Expense - Governmental Activities	$	111,701
Business-type Activities:		
DelDOT	$	25,332
Total Depreciation Expense - Business-type Activities	$	25,332

NOTE 13 RISK MANAGEMENT

The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional malpractice and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its general fund. The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

Claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process does not result in an exact amount. Claim liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The management of the State estimates that the amount of actual or potential claims against the State at June 30, 2013, for workers' compensation, automobile accident and health-care claim liabilities is $207.8 million. The claim liabilities relating to health-care totaling $41.9 million have been recorded as accrued liabilities in governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $165.9 million has been recorded in governmental activities as claims and judgments. The current portion of these claims totals $37.4 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2013 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2013 and 2012 were as follows:

Changes in Claim Liabilities
(Expressed in Thousands)

Fiscal Year	Beginning Balance July 1	Current Year Claims and Changes in Estimates	Actual Claim Payments	Ending Balance June 30
2012	$ 176,929	$ 639,514	$ (617,548)	$ 198,895
2013	$ 198,895	$ 640,376	$ (631,434)	$ 207,837

DelDOT

The Delaware Transit Corporation (DTC) maintains coverage on auto insurance through both the retention of risk and the purchase of commercial insurance. The DTC has recorded $9.8 million of claim liabilities as Insurance Loss Reserve. Of this amount, $2.5 million has been recorded as current.

NOTE 14 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

On July 1, 2007, the Delaware OPEB Trust Fund (OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code and separate from the DPERS. The OPEB Trust is administered by the DPERS Board of Directors. Policy for and management of the OPEB benefits provided to retirees are the responsibility of the State. No stand-alone financial report is issued for the OPEB Trust.

The OPEB Trust is a single-employer defined benefit plan. The OPEB Trust provides retirement medical coverage to pensioners and their eligible dependents in the State Employees', Judiciary, New State Police, and Closed State Police pension plans. The State of Delaware has elected to assume the OPEB liability on behalf of employees who participate in the State's pension plan but are employed at outside agencies including Delaware State University, University of Delaware, Delaware State Housing Authority, Delaware Charter Schools and Delaware Solid Waste Authority. Due to this assumption, the State is a single employer defined benefit plan.

Membership of the plan consisted of the following at June 30, 2013:

Retirees and Beneficiaries Receiving Benefits	19,863
Terminated Plan Members Entitled to But Not Yet Receiving the Benefits	2,575
Active Eligible Plan Members	36,316
Total	58,754

Substantially all State employees become eligible for post retirement benefits if they reach retirement age while working for the State. The costs of providing these benefits are shared between the State and the retired employee. The plan provisions are as follows:

Eligibility:

State Employees:
Early Retirement:
Age 55 with 15 years of service or any age with 25 years of service
Normal Retirement:
Age 62 with 5 years of service or age 60 with 15 years of service or any age with 30 years of service

Benefits:

During the fiscal year ended June 30, 2013, the State provided health insurance options through several providers.

Spouse and Survivor Coverage:

Both are available under any of the plan options with similar retiree contributions.

Employee Contributions:

If hired prior to July 1, 1991, no contributions are required. If hired on or after July 1, 1991 (except disability pension), contributions depend on years of service.

Retiree Contributions (hired on or after July 1, 1991):

Years of Service	Percent of Premium Paid by State
Less than 10	0%
10 - 14	50%
15 - 19	75%
20 or more	100%

Funding Policy

The State of Delaware funds the OPEB Trust for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. Additional funding has also been provided on an ad hoc basis. By State Statute Chapter 52, Title 29 of the Delaware Code, contribution requirements of plan members and the government are established and may be amended by the State Legislature. Funds are recorded in the OPEB Trust for the payment of retiree health care claims and administrative and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for health care are recorded in the OPEB Trust. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the OPEB Trust and is responsible for the financial management of the OPEB Trust.

Contributions

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percent of covered payroll, with an additional amount to prefund benefits, which is not actuarially determined. For fiscal year 2013, the State contribution in relation to the annual required contribution (ARC) totaled $193.1 million.

Retiree contribution rates are affected by the retiree date of hire, with eligible retirees hired after June 30, 1991 paying a proportionately higher rate if their years of service total less than 20. Retiree contributions for health coverage totaled $7.4 million.

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount which is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligations. The following table shows the components of the State's annual OPEB obligation for fiscal year 2013 and 2012, the amount actually contributed to the plan, and the State's net OPEB obligation (dollar amounts in millions):

	Total	Governmental Activities	Business-Type Activities *
Net OPEB Obligation at June 30, 2011	$ 1,317.1	$ 1,204.1	$ 113.0
Annual Required Contribution	563.8	515.0	48.8
Adjustment to Annual Required Contribution	(51.2)	(46.7)	(4.5)
Subtotal	1,829.7	1,672.4	157.3
Employer Contributions	(187.3)	(175.9)	(11.4)
Net OPEB Obligation at June 30, 2012	$ 1,642.4	$ 1,496.5	$ 145.9

	Total	Governmental Activities	Business-Type Activities *
Net OPEB Obligation at June 30, 2012	$ 1,642.4	$ 1,496.5	$ 145.9
Annual Required Contribution	483.8	440.4	43.4
Adjustment to Annual Required Contribution	(64.1)	(58.0)	(6.1)
Subtotal	2,062.1	1,878.9	183.2
Employer Contributions	(209.2)	(196.9)	(12.3)
Net OPEB Obligation at June 30, 2013	$ 1,852.9	$ 1,682.0	$ 170.9

* This column includes DTC's OPEB activity.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years 2013, 2012, and 2011 are as follows (dollar amounts in millions):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$ 397.8	52%	$ 1,777.5
2012	490.5	38%	1,581.5
2011	488.1	37%	1,272.0

Funded Status and Funding Progress

As of June 30, 2013, the plan was 3.7% funded. The actuarial accrued liability for benefits was $5,988.0 million, and the actuarial value of assets was $222.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $5,766.0 million for the primary government. The covered payroll (annual payroll of active employees covered by the plan) was $1,944.0 million, and the ratio of the UAAL to the covered payroll was 297%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, will present information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the OPEB plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2013, actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market fair value. The actuarial assumptions included a 4.25% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the State's own investments calculated based on the funded level of the plan at the valuation date, and an initial medical inflation rate of 4.25% with an ultimate rate of 4.25%. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.25% rate of salary increase.

Delaware Transit Corporation (DTC)

In June 2010, the Delaware Transit Corporation OPEB Trust Fund (the DTC OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code. The DTC OPEB Trust is

administered by DTC. Policy for and management of the OPEB benefits provided to retirees are the responsibility of DTC. No stand-alone financial report is issued for the DTC OPEB Trust.

Plan Description

DTC provides continuation of medical insurance coverage to employees that retire. Based on collective bargaining agreements, any full-time employee is eligible to participate in the plan if the employee retires after meeting the eligibility requirements, which are: 1) age 65 with 5 years of service or after working for 25 years for contract employees or 2) age 55 with 10 years of service or age 62 with five years of service for noncontract employees. Disabled employees must reach eligibility. Surviving spouses of participants are allowed access to the plan and receive the same subsidy as retirees.

DTC subsidizes the medical premium. The subsidized percentage is 90% of published rates for retirees less than age 65 and 100% for retiree's age 65 or greater. DTC subsidizes 100% of the dental and vision coverage for noncontract employees. Contract employees are allowed to access to dental and vision coverage, but must pay the full premium. Life insurance is provided to retirees. Retirees under age 70 receive $6,000 in coverage. Once the participant reaches age 70, the coverage drops to $5,000. DTC must contribute $0.23 per month per $1,000 of coverage for each employee.

The numbers of participants are 799 active employees and 158 retirees as of June 30, 2013, the effective date of the other post-employment benefit (OPEB) actuarial valuation report.

Funding Policy

DTC funds the DTC OPEB Trust on a pay-as-you-go basis with additional funding on an ad hoc basis. Funds are recorded in the DTC OPEB Trust for the payment of retiree healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. Employer contributions and retiree contributions for healthcare are recorded in the DTC OPEB Trust. The funds available are invested under DTC's management, which acts as the Trustee and is responsible for the financial management of the DTC OPEB Trust. The cash basis costs associated with these benefits was $1.2 million for the fiscal year ended June 30, 2013.

Annual OPEB Cost and Net Obligation

DTC's annual OPEB cost (expense) is calculated based upon the annual required contribution (ARC) of the employer, an amount which is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of DTC's OPEB cost for the year, the amount actually contributed to the plan, and changes to DTC's net OPEB obligation (expressed in thousands):

Annual Required Contribution	$	16,072
Interest on Net OPEB Obligation		2,434
Adjustment to Annual Required Contribution		(2,835)
Annual OPEB Cost (Expense)		15,671
Contributions Made		(1,194)
Increase in Net OPEB Obligation		14,477
Net OPEB Obligation - Beginning of Year		61,021
Net OPEB Obligation - End of Year	$	75,498

DTC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows (expressed in thousands):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	$ 15,671	7.62%	$ 75,498
2012	17,074	6.84%	61,021
2011	15,772	6.61%	45,115

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the Plan was 1.4% funded. The actuarial accrued liability was $121.6 million and the actuarial value of the assets was $1.7 million, resulting in an unfunded actuarial accrued liability of $119.9 million. The covered payroll (annual payroll of active employees covered by the plan) was $34.5 million and the ratio of the UAAL to the covered payroll was 347.1%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2012 actuarial valuation, the projected unit credit method was used with linear pro-ration to assumed benefit commencement. The actuarial assumptions included a 4.0% investment rate of return, 3.0% payroll growth rate, a 2.5% inflation rate, and a healthcare cost trend rate of 8.0% initially, incrementally down to 5.9% after 10 years. The ultimate healthcare cost trend rate

will remain constant at 4.2% after 2098. The unfunded liability is being amortized as a level percentage of payrolls over a 30-year closed amortization period.

NOTE 15 PENSIONS

Pension Plans

The State Board of Pension Trustees (Board) administers the following plans/funds (the Plans) of the Delaware Public Employees' Retirement System (DPERS) as described below:

- State Employees' Pension Plan;
- Special Fund;
- New State Police Pension Plan;
- Judiciary Pension Plans (Closed and Revised);
- County & Municipal Police and Firefighters' Pension Plans;
- County & Municipal Other Employees' Pension Plan;
- Delaware Volunteer Firemen's Fund;
- Diamond State Port Corporation Pension Plan; and
- Closed State Police Pension Plan.

With the exception of the Diamond State Port Corporation Pension Plan, the State's General Assembly is responsible for setting benefits and contributions and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending their plan provisions.

The Plans of DPERS are considered part of the State's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary funds. All of the investment assets of the plans and funds, with the exception of the Closed State Police Pension Plan and the Delaware Volunteer Firemen's Fund, are pooled and invested in a common DPERS Master Trust (Master Trust). Each of the plans or funds share in the Master Trust based on funds contributed and earnings or losses allocated. Individual investments in the Master Trust are not specifically identified to the various plans or funds.

Additionally, the following non-DPERS retirements funds/plans, described below, have been established under the custody of the Board for investment purposes only:

- County & Municipal Police and Firefighters' COLA Fund;
- Post-Retirement Increase Fund;
- Delaware Local Government Retirement Investment Pool.

The Delaware Local Government Retirement Investment Pool (DELRIP) is presented separately as investment trust funds in the fiduciary funds statement of net position and statement of changes in net position. The remaining non-DPERS retirement funds/plans are included in the pension trust fund.

Non-DPERS Fund Descriptions and Contributions

County & Municipal Police and Firefighters' COLA Fund

During 1990, the State passed legislation which established a mechanism for funding post-retirement increases granted by employers who participate in the County & Municipal Police and Firefighters' Pension Plans. This mechanism allows the State to appropriate funds separate to a cost of living adjustment fund (COLA Fund) managed by the Board. The funds are generated by a 0.25% tax on the value of insurance premiums written within the State. The proceeds of the tax are transferred to the State and local governments on a per member basis. In 1994, the New State Police Plan began receiving funding for post-retirement increases from the Post-Retirement Increase Fund. Since that time, funds calculated for the State Police membership were re-directed into the COLA Fund. In accordance with Section 708 (c), Title 18 of the Delaware Code, when a participating employer grants a post-retirement increase for a plan outside of the DPERS County & Municipal Plans, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution. Allocated funds that are unused will be reverted to the State General Fund.

Post-Retirement Increase Fund (PRI)

The State passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to members retired under the State Employees' Plan, the New State Police Plan, and the Judiciary Plans (Closed and Revised) beginning in fiscal year 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI fund managed by the Board. The actuary uses the current actuarial assumptions, methods, and population data to calculate the estimated additional liability resulting from the potential benefit increases. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this PRI fund on a monthly basis based on a five-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed. For the fiscal year ended June 30, 2013, $26.6 million was transferred to the appropriate plans in DPERS.

As of June 30, 2013 recently granted post-retirement increases have outstanding liabilities totaling $106.1 million, which will be funded by the State and transferred to the appropriate plans over the next four fiscal years as follows:

Fiscal Year	Expressed in Thousands
2014	$ 27,536
2015	28,521
2016	29,542
2017	20,536
Total	$ 106,135

The Board adopts actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal year 2013 was 1.49% of covered payroll. Funding for fiscal year 2014 will be 1.51%.

Local Government Retirement Investment Pool (DELRIP)

In June 1996, the State established DELRIP in the custody of the Board to allow local governments the option to pool their pension assets with the System for investment purposes. The DELRIP is an external investment pool that allows local governments within the State to potentially maximize their rate of return and reduce administrative expenses related to the investment of funds. Participation in the pool is voluntary. There were three participating entities in DELRIP as of June 30, 2013, which comprise the pool in its entirety: Sussex County and the Towns of Elsmere and Newport.

DELRIP is subject to the oversight of the System's Investment Committee and not subject to the regulatory oversight of the Securities and Exchange Commission (SEC). The System has not provided or obtained any legally binding guarantees during the year to support the value of shares. The fair value of the shares in the pool is determined in the same manner as the value of the Master Trust shares. Since this pool is a portion of the total System, the same accounting and investment policies apply.

Plan Membership, Benefit and Contribution Provisions

A description of the individual plans including eligibility provisions, types of benefits and contribution requirements are set forth in general terms below and on the following pages. Detailed information regarding these plans is available in the Delaware Code and in the Rules and Regulations of the Board.

State Employees' Pension Plan

Plan Description and Eligibility:

The State Employees' Pension Plan is a cost-sharing single employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

There are two tiers within this plan:

1) Employees hired prior to January 1, 2012
2) Employees hired on or after January 1, 2012

Service Benefits: Final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997, plus final average compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

Vesting: Pre-2012 date of hire: 5 years of credited service.
Post-2011 date of hire: 10 years of credited service.

Retirement: Pre-2012 date of hire: Age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age.
Post-2011 date of hire: age 65 with at least 10 years of credited service; Age 60 with 20 years of credited service; 30 years of credited service at any age.

Disability Benefits: Pre-2012 date of hire: Same as Service Benefits. Employee must have 5 years of credited service. In lieu of disability pension benefits, over 90% of the members of this plan opted into a disability insurance program offered by the State effective January 1, 2006.
Post-2011 date of hire- in the Disability Insurance Program.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension (or 75% with 3% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 75% of the benefit the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Pre -2012 date of hire Member - 3% of earnings in excess of $6,000.
- Post-2011 date of hire Member- 5% of earnings in excess of $6,000.

Burial Benefit: $7,000 per member.

Special Fund

Plan Description and Eligibility:

The Special Fund provides certain benefits granted to individuals through legislation passed by the General Assembly.

Service Benefits: Defined by special legislation.

Vesting: Defined by special legislation.

Retirement: Defined by special legislation.

Disability Benefits: Defined by special legislation.

Survivor Benefits: Same as State Employees' Plan.

Contributions: Employer contributions are actuarially determined and fully funded in advance by the General Assembly.

Burial Benefit: $7,000 per member.

New State Police Pension Plan

Plan Description and Eligibility:

The New State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed on or after July 1, 1980.

Service Benefits: 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 10 years of credited service at age 62.

Retirement: Age 62 with 10 years of credited service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits: Duty – *Total Disability* - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents. *Partial Disability* - calculated the same as Service Benefits, subject to minimum 50% of final average compensation.

Non-Duty – same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 75% of compensation.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 7% of compensation.

Burial Benefit: $7,000 per member.

Judiciary Pension Plans (Closed and Revised)

Plan Description and Eligibility:

The Closed Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed before July 1, 1980.

The Revised Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed on or after July 1, 1980 or members appointed before July 1, 1980 who accept the provisions of this Plan. Assets of one plan can be used to satisfy the liabilities of the other plan.

Service Benefits:

Revised - 1/24th of final average monthly compensation multiplied by years of service up to 12 years, plus 1/48th of final average monthly compensation, multiplied by years of service from 13 to 24 years, subject to maximum limitations.
For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 12 years of credited service.

Retirement:

Revised - Age 62 with 12 years of credited service, or any age with 24 years of credited service.

Disability Benefits: Same as Service Benefits.

Survivor Benefits:

Closed - If employee is receiving a pension, the eligible survivor receives 2/3 of pension; if employee is active with 12 years of credited service, then eligible survivor receives 2/3 of pension the employee would have been eligible to receive.

Revised - If employee is receiving a pension, the eligible survivor receives 50% of pension (or 2/3 with 2% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 2/3 of the benefit the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member:

Closed - $500 per year for the first 25 years of service.

Revised - 3% of earnings that exceed $6,000 per year, plus 2% of earnings that exceed the Social Security Wage Base for the first 24 years of service.

Burial Benefit: Not applicable.

County & Municipal Police and Firefighters' Pension Plans

Plan Description and Eligibility:

County & Municipal Police and Firefighters' Pension Plans, both FICA and Non-FICA, are cost-sharing multiple-employer defined benefit plans that cover police officers and firefighters employed by a county or municipality of the State which has become part of the Plan.

Service Benefits: 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits:

Duty - *Total Disability* - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents;
Partial Disability - calculated the same as Service Benefits, subject to minimum 50% of final average compensation.

Non-Duty - Same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 7% of compensation.

Burial Benefit: Not applicable.

County and Municipal Other Employees' Pension Plan

Plan Description and Eligibility:

County and Municipal Other Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers employees of counties or municipalities which have become part of the Plan.

Service Benefits: 1/60th of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of the highest five years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of credited service, age 60 with 15 years of credited service; or after 30 years of credited service.

Disability Benefits: Same as Service Benefits. Employee must have 5 years of credited service.

Survivor Benefits: If employee is receiving a pension, then eligible survivor receives 50% of pension; if the employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 3% of earnings in excess of $6,000.

Burial Benefit: Not applicable.

Delaware Volunteer Firemen's Fund

Plan Description and Eligibility:

The Delaware Volunteer Firemen's Fund is a cost-sharing length of service award plan that covers all actively participating volunteers of fire departments, ladies auxiliaries, or ambulance organizations within the State.

Service Benefits: $5 multiplied by years of credited service (not to exceed 25 years) per month.

Vesting: 10 years of credited service.

Retirement: Age 60 with 10 years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

Contributions:

- Employer - Determined by Board of Pension Trustees.

- Member - $60 per member per calendar year.

Burial Benefit: Not applicable.

Diamond State Port Corporation Pension Plan

Plan Description and Eligibility:

The Diamond State Port Corporation Pension Plan is a single-employer defined benefit plan which covers all employees of the Diamond State Port Corporation.

Service Benefits: 1.75% of final average monthly compensation multiplied by the years of credited service (not to exceed 30 years). For this plan, final average monthly compensation is the monthly average of the highest consecutive five years of compensation within the last ten years of employment.

Vesting: 5 years of credited service.

Retirement: Age 65 with 5 years of credited service, or age (not less than 55 years) plus credited service equals 90.

Disability Benefits: Same as Service Benefits. Employee must have 15 years of credited service.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active with at least 15 years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 65.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 2% of compensation.

Burial Benefit: Not applicable.

Closed State Police Pension Plan

Plan Description and Eligibility:

The Closed State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed before July 1, 1980.

Survivor Benefits: If employee is active or is receiving a service or service-related disability pension, the eligible survivor receives 75% of pension; if employee is receiving a non-service related disability pension; eligible survivor

receives 50% of pension.

Contributions:

- Employer - Funded on a pay-as-you-go basis.

Burial Benefit: $7,000 per member.

Historical Trend Information

Historical trend information for the current year and the preceding five years is designed to provide information about progress made by the individual plans in accumulating sufficient assets to pay benefits when due is presented in the separately issued financial report of the DPERS.

The DPERS issues a publicly available financial report that includes financial statements and required supplementary information for each of the individual plans and funds identified above. The financial report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

Schedule of Annual Pension Cost, Actuarial Methods and Assumptions
(Expressed in Thousands)

Plan	State Employees'	Special	Closed State Police	New State Police	Judiciary
Annual Pension Cost	160,651	N/A	25,696	9,292	2,762
Actuarial Valuation Date	6/30/2013	6/30/2013	6/30/2013	6/30/2013	6/30/2013
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss	Level Dollar Open	Level Dollar Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	20 years (1)	10 years	24 years	20 years (1)	8.26 years (1)
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:					
Investment Rate of Return	7.5%	7.5%	7.5%	7.5%	7.5%
Projected Salary Increases 1	3.8% to 11.8%	N/A	4.2% to 4.8%	4.3% to 11.8%	3.8% to 12.5%
Cost-of-Living Adjustments	Ad hoc	Ad hoc	Based on CPI	Ad hoc	Ad hoc

Plan	Diamond State Port Corporation	County & Municipal Police and Firefighters'	County & Municipal Other Employees	Delaware Volunteer Firemen's
Annual Pension Cost	854	8,671	1,604	2,002
Actuarial Valuation Date	6/30/2013	6/30/2013	6/30/2013	6/30/2013
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Open	Level Percent Open	Level Percent Open	Level Dollar Open
Remaining Amortization Period	15 years	10 years	10 years	15 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:				
Investment Rate of Return	7.5%	7.5%	7.5%	7.5%
Projected Salary Increases 1	4.3%	4.3% to 11.8%	3.8% to 9.6%	N/A
Cost-of-Living Adjustments	Ad Hoc	Ad Hoc	Ad Hoc	Ad Hoc

1 Excludes liability and amortization payments due to cost-of-living adjustments. This liability is funded from the Post-Retirement Increase Fund. Each Post-Retirement Increase is funded over 5 years. N/A: Not applicable.

Three-Year Trend Information
(Expressed in Thousands)

	Plan Year Ended	Contribution Made	Annual Pension Cost (APC)	Percent Of APC Contributed	Net Pension Obligation
State Employees'	6/30/2013	$ 160,651	$ 160,651	100.00%	$ -
	6/30/2012	147,464	147,464	100.00%	-
	6/30/2011	128,019	128,019	100.00%	-
County & Municipal Police and Firefighters'	6/30/2013	$ 8,671	$ 8,671	100.00%	$ -
	6/30/2012	9,265	9,265	100.00%	-
	6/30/2011	7,569	7,569	100.00%	-
County & Municipal Other Employees'	6/30/2013	$ 1,604	$ 1,604	100.00%	$ -
	6/30/2012	1,362	1,362	100.00%	-
	6/30/2011	1,186	1,186	100.00%	-
Delaware Volunteer Firemen's	6/30/2013	$ 1,456	$ 2,002	72.73%	$ 4,246
	6/30/2012	1,311	1,896	69.15%	3,833
	6/30/2011	1,220	1,762	69.24%	3,352
Judiciary	6/30/2013	$ 2,762	$ 2,762	100.00%	$ -
	6/30/2012	2,674	2,674	100.00%	-
	6/30/2011	2,557	2,557	100.00%	-
New State Police	6/30/2013	$ 9,292	$ 9,292	100.00%	$ -
	6/30/2012	8,309	8,309	100.00%	-
	6/30/2011	7,810	7,810	100.00%	-
Closed State Police	6/30/2013	$ 23,064	$ 25,696	89.76%	$ 119,088
	6/30/2012	23,064	24,678	93.46%	117,997
	6/30/2011	23,367	26,638	87.72%	117,768
Diamond State Port Corporation	6/30/2013	$ 854	$ 854	100.00%	$ -
	6/30/2012	814	814	100.00%	-
	6/30/2011	704	704	100.00%	-

NET PENSION OBLIGATION (NPO)

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Pension Plan for the fiscal years ended June 30, 2013, 2012, and 2011 are as follows:

Net Pension Obligation (NPO)
(Expressed in Thousands)

	Fiscal Year Ended June 30, 2013	Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011
Annual Required Contribution	$ 25,696	$ 24,678	$ 26,638
Interest on Net Pension Obligation	8,850	8,833	9,246
Adjustment to Annual Required Contribution	(10,391)	(10,218)	(10,318)
Annual Pension Cost	24,155	23,293	25,566
Less Contributions Made	(23,064)	(23,064)	(23,367)
Increase in Net Pension Obligation	1,091	229	2,199
Net Pension Obligation, Beginning of Year	117,997	117,768	115,569
Net Pension Obligation, End of Year	$ 119,088	$ 117,997	$ 117,768

Delaware Transportation Authority

Generally, employees of the Expressways Operations/Toll Administration are covered under DPERS. The Delaware Transit Corporation (DTC), a subsidiary public corporation of the Delaware Transportation Authority, contributes to two single-employer defined benefit plans consisting of the Contributory Pension Plan and the Delaware Transit Corporation (DTC) Pension Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Financial data for these plans has not been included in the fiduciary statements due to immateriality.

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC.

The most recent information available for DTC's annual pension cost and related information for each Plan is as follows:

Schedule of Annual Pension Cost, Actuarial Methods and Assumptions
(Expressed in Dollars)

Plan	**DTC Pension Plan**	**Contributory Pension Plan**
Contribution Rates:		
Employer	8.70%*	5.00%
Participants	3.00%	5.00%
Annual Pension Cost	$ 962,682	$ 788,421
Contributions Made	$ 963,253	$ 1,080,068
Actuarial Valuation Date	07/01/12	01/01/13
Actuarial Cost Method	Frozen Initial Liability	Entry Age Normal
Remaining Amortization Period	30	15
Asset Valuation Method	Market	Five-Year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.00%
Projected Salary Increases	2.50%	4.00%

Note: Effective July 1, 2012 , an amendment was made to the DTC Pension Plan which states that any eligible employee who participates in the Plan shall make after-tax contributions in the amount equal to 3% of their eligible compensation in excess of $6,000.

* Actuarially determined

DTC's annual pension cost and net pension obligation to the DTC Pension and Contributory Pension Plan were as follows:

Schedule of Annual Pension Cost, Actuarial Methods and Assumptions
(Expressed in Dollars)

	DTC Pension Plan	Contributory Pension Plan
For the Year Ended	6/30/2013	12/31/2012
Annual Required Contribution (ARC)	$ 962,682	$ 714,521
Interest on Net Pension Obligation (NPO)	8,163	292,950
Actuarial Adjustment	(8,163)	(219,050)
Annual Pension Cost (APC)	962,682	788,421
Less: Actual Contributions	(963,253)	(1,080,068)
Increase (Decrease) in NPO	(571)	(291,647)
Net Pension Obligation (Asset), Beginning of the Year	109,418	(3,129,291)
Net Pension Obligation (Asset), End of the Year	$ 108,847	$ (3,420,938)

Three-Year Trend Information
Net Pension Obligation (NPO)
(Expressed in Dollars)

	Plan Year Ended	Contribution Made	Annual Pension Cost	Percent Of APC Contributed	Net Pension Asset
DTC Pension Plan	6/30/2013	$ 963,253	$ 962,682	100.06%	$ (108,847)
	6/30/2012	996,777	996,827	99.99%	(109,418)
	6/30/2011	1,111,468	1,111,548	99.99%	(109,368)
Contributory Pension	12/31/2012	$ 1,080,068	$ 788,421	136.99%	$ 3,420,938
	12/31/2011	1,073,948	658,363	163.12%	3,129,291
	12/31/2010	1,081,793	535,681	201.95%	2,713,706

Deferred Compensation Plan

The State offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 16 GOVERNMENTAL FUND BALANCES

The State's governmental fund balances are classified according to the relative constraints that control how amounts can be spent. Classifications include:

- **Nonspendable**. Balances include items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact.
- **Restricted.** Balances have constraints placed upon the use of the resources either by constitutional provisions, enabling legislation, external resource providers such as creditors, grantors, or imposed by law or regulations of other governments.
- **Committed**. Balances can be used only for specific purposes pursuant to constraints imposed by a formal action of the Delaware Legislature, the State's highest level of decision-making authority. This formal action is the passage of law by the legislature, or other parties named by the State's legislature, creating, modifying, or rescinding an appropriation.
- **Assigned.** Balances include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted nor committed. For the General Fund, amounts constrained for the intent to be used for specific purpose by a governing board or a body or official that has been delegated authority to assign amounts that varies by organization within the state. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.
- **Unassigned.** Balance is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

A summary of governmental fund balances at June 30, 2013, is as follows (expressed in thousands):

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
Nonspendable					
Inventories	$ 7,681	$ -	$ -	$ -	$ 7,681
Total Nonspendable	7,681	-	-	-	7,681
Restricted:					
Health and Children's Services	6,939	-	-	-	6,939
Judicial and Public Safety	9,251	-	-	-	9,251
Natural Resources and Environmental Control	81,044	-	-	-	81,044
Agriculture	225	-	-	-	225
Labor	8,719	-	-	-	8,719
Education	3,886	-	294,276	160,982	459,144
Economic Development	536	-	-	-	536
Other	3,818	-	-	-	3,818
Total Restricted	114,418	-	294,276	160,982	569,676
Committed					-
Health and Children's Services	44,756	-	-	-	44,756
Judicial and Public Safety	6,212	-	-	-	6,212
Natural Resources and Environmental Control	31,643	-	-	-	31,643
Agriculture	15,053	-	-	-	15,053
Labor	4,009	-	-	-	4,009
Education	8,680	-	-	-	8,680
Economic Development	82,521	-	-	-	82,521
Other	16,683	-	-	-	16,683
Total Committed	209,557	-	-	-	209,557
Assigned					
Health and Children's Services	2,768	-	-	-	2,768
Judicial and Public Safety	3,818	-	-	-	3,818
Natural Resources and Environmental Control	5,385	-	-	-	5,385
Agriculture	11,171	-	-	-	11,171
Education	51,851	-	-	-	51,851
Economic Development	122	-	-	-	122
Other	16,482	-	-	-	16,482
Total Assigned	91,597	-	-	-	91,597
Unassigned (Deficit)	1,025,284	(914)	-	-	1,024,370
Total Fund Balance	$ 1,448,537	$ (914)	$ 294,276	$ 160,982	$ 1,902,881

Fund Balance Restricted by Enabling Legislation

The restricted Fund Balance for the Local School Districts Fund are funds that are used to account for activities relating to Delaware's 19 local school districts, which are funded by locally raised real estate taxes and other revenues. The total amount in the fund was $294.3 million at June 30, 2013.

NOTE 17 AFFILIATED ORGANIZATIONS

The State Lottery is a member of the Multi-State Lottery Association (MUSL), which operates online games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the member's share of the estimated grand prize liability. Each MUSL member pays lesser prizes directly to the winners. The MUSL operates the Powerball games, as well as the Powerplay feature associated with Powerball, and also operates the Hot Lotto game. Participating lotteries are required to maintain deposits with MUSL for contingency reserves to protect MUSL from unforeseen prize liabilities. The money in this reserve fund is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board.

The amount the Lottery had on deposit with the MUSL, as of June 30, 2013 was $2.4 million. This amount is also reported as a liability on the Lottery's balance sheet because it represents the amount to be paid to the State upon separation from the MUSL if the MUSL is not required to use a portion of the Lottery's reserves held by the MUSL.

Complete separate financial statements for the MUSL may be obtained at the Multi-State Lottery Association, Suite 210, and 1701 48th Street, West Des Moines, IA 50266-6723.

NOTE 18 COMMITMENTS

Primary Government

The State has entered into various contractual commitments that control for services and for construction of various highway, capital and lottery projects. Commitment of the proprietary fund includes $253.2 million for DelDOT.

Encumbrances which represent commitment related to unperformed contracts for goods or services are included in restricted, committed, or assigned fund balance, as appropriate. Encumbrances lapse at the end of the applicable appropriation, unless re-appropriated by the Legislature. Encumbrances outstanding against continuing appropriations at the end of fiscal year 2013 are as follows: general fund $148.9 million, federal funds are $17.9 million, local school district funds are $5.7 million and capital project funds are $30.0 million.

Discretely Presented Component Units

Diamond State Port Corporation (DSPC)

DSPC has various contracts for construction and renovation of significant facilities in accordance with the Capital Budget approved by its Board of Directors. As of June 30, 2013, DSPC had $19.9 million in cash and cash equivalents committed to capital projects.

NOTE 19 CONTINGENCIES

Various parties have made claims against the State. For those cases in which it is reasonably possible that a loss will be incurred and in which the amount of the potential judgment can be reasonably estimated, the State estimates the liability to be $4.8 million. The State recognized $1.3 million in governmental activities as claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2013. In the opinion of the Attorney General of the State, however, the remaining cases are either subject to a valid defense or are not expected to result in an impairment of the State's financial position. Management believes the settlement in aggregate of claims outstanding will not result in amounts material to the financial statements of the State.

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. The State does not believe that the liabilities that may result from such audits for periods through June 30, 2013 would have a material effect on its financial position or the results of operations.

Site investigation, planning and design, cleanup and site monitoring are typical pollution remediation activities underway across the State. Several State organizations have dedicated programs, rules and regulations that routinely deal with remediation related issues; others become aware of pollution conditions in the fulfillment of their missions. The State has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities. The State calculates pollution remediation liabilities using the expected cash flow technique. Where the State cannot reasonably estimate a pollution remediation obligation, it does not report a liability; however, the State has not identified any of these situations.

The pollution remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

At June 30, 2013, the State had a total pollution remediation liability of $31.6 million, with an estimated potential recovery of $4.5 million from the U.S. Environmental Protection Agency.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than $150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately $200 thousand at June 30, 2013) in the event that the annuity issuers default on their obligations.

In fiscal year 2014 the State of Delaware has processed and paid $11.1 million of corporate income tax refunds as of November 30, 2013. Currently, there are corporate income tax refunds pending that total $136.8 million, an amount that is well in excess of the typical balance of refunds pending. The preponderance of the $136.8 million balance is attributable to fewer than five refund claims. These pending refund claims have been filed by taxpayers, but the validity of each of the claims has not been evaluated or determined as of the date hereof. Historically, the amount of refund claims for corporate income tax the State receives varies significantly from year to year. From fiscal year 2005 through fiscal year 2013, the corporate income tax refunds actually paid have ranged from a low of $17.8 million to a high of $52.9 million. The current budget projects total corporate income tax refunds of $45.6 million for fiscal year 2014 of which $40.0 million has been accrued for in the fiscal year. However, based on the current figures for this fiscal year, the potential continues to exist that the total corporate income tax refund claims may exceed the amount initially projected for the year. Based upon the claims received to date, the potential corporate income tax refund payments for fiscal year 2014 may now range from approximately $35.0 million to approximately $100 million.

NOTE 20 SUBSEQUENT EVENTS

Discretely Presented Component Units

Delaware State University (DSU or the University)

The University entered into a $12 million, 15-year lease agreement with the owners of a local hotel with an option to buy any time after the second year. The lease on the 153 room facility, located a quarter-mile north of the campus, began on July 28, 2013 and will provide additional residential space for students as existing residential halls on campus are renovated and upgraded.

NOTE 21 RESTATEMENT

Discretely Presented Component Units

Delaware State Housing Authority (DSHA)

In prior years, securitized mortgage loans were carried at current principal amounts, which did not constitute fair value in accordance with GASB standards. The beginning net position as July 1, 2012 has been restated in the amount of $58.9 million due to recording these loans at fair value, as follows:

DSHA
(Expressed in Thousands)

Net Position as previously reported at June 30, 2012	$ 365,990
Adjustment to record loans at fair market value	66,827
Adjustment to record premiums and discounts on loans	(7,896)
Net Position as restated at July 1, 2012	$ 424,921

State of Delaware
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Financial Report

Required
Supplementary
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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

BUDGETARY BASIS VS. GAAP

While GAAP requires the use of the fund structure described in Note 1(b), the State's budget system uses only a general fund and a special fund, each of which uses the basis of accounting described below. Additionally, the activities of the Delaware State Housing Authority and Delaware State University, both component units of the State, which are not substantially supported by tax revenues, are not included in the budget data. Reconciliation of the accrual adjustments necessary to convert budgetary basis information to GAAP basis is presented as Required Supplementary Information.

The State Constitution requires the Governor to prepare and submit to the General Assembly a State budget for the ensuing year. The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the general fund or the special fund. References to these two funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The General Assembly enacts the budget through the passage of specific line-item appropriations by department, the legal level of budgetary control, the sum of which must not exceed 98 percent of the estimated revenues and available unencumbered cash balance from the prior year pursuant to the State Constitution. The Governor has the power to approve or veto each appropriation passed by the General Assembly. The General Assembly may also enact supplemental appropriation or special appropriation bills after it completes action on the State's budget.

The budgetary general fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary special funds. Certain special funds are subject to appropriation, referred to herein as budgetary or appropriated special funds. Unexpended appropriations at year-end are available for subsequent expenditure to the extent that they have been encumbered at that date or legislatively extended for another year. Budget data represents original appropriations modified by interdepartmental transfers, supplemental, continuing, and carried-over encumbered appropriations. Subsequent modifications to the budget require the approval of the Controller General and the Budget Director. Additional detailed information regarding compliance with the legal level on control can be obtained by contacting the Office of Management and Budget at (302) 739-4206. Summary information regarding individual department budgets and the compliance with the legal level of budgetary control is presented on the following pages.

Encumbrance accounting is employed in budgetary funds. Encumbrances (e.g., purchase orders) outstanding at year-end do not constitute expenditures or liabilities and are reported as reservations of fund balances because the commitments will be honored during the subsequent year.

The budget schedules in Required Supplemental Information a) reflect the adjustments made to increase the special fund's excess of revenues over expenditures for certain revenue sources not previously recognized; b) eliminates the net activity of certain operations that are accounted for within both the special fund and also in the separate accounts of certain component units or

agency funds that are not principally accounted for within the special fund; and c) presents the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

Statutory/Budgetary Presentation

The Budgetary Comparison Schedule – Budget to Actual (Non-GAAP Budgetary Basis) presented on the following pages provides a comparison of the original and final legally adopted budget with actual data on a budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriations bill as of June 30, 2013, and do not include encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year. GAAP requires that the final legal budget be reflected in the "final budget" column; therefore, updated revenue estimates available for appropriations as of the last Delaware Economic and Financial Advisory Council (DEFAC) meeting in June 2013, as well as the amounts shown in the original budget, are reported. The final legal budget also reflects encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year.

The tables on the following page represent the Budgetary Statements of Revenues, Expenditures and Changes in Fund Balance – General and Special Funds. Also included is a schedule showing the budgetary fund balance designations for the General Fund. Of the $637.4 million budgetary general fund balance at June 30, 2013, $198.9 million is reserved for the budgetary reserve account and $276.4 million is designated as continuing and encumbered appropriations. The $162.1 million of undesignated fund balance, for the most part, is not available for new spending as these funds have been committed based on State statutes which are subject to review and change by the Legislature.

(Expressed in Millions)

	General Fund				Special Fund			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
Revenues								
Personal Income Taxes	$ 1,086.2	$ 1,137.2	$ 1,139.0	$ 1.8	$ -	$ -	$ -	$ -
Business Taxes	1,787.6	1,787.1	1,751.2	(35.9)	-	-	-	-
Other Taxes	173.8	167.6	162.1	(5.5)	-	-	-	-
License, Permits, Fines and Fees	342.7	341.2	346.3	5.1	-	-	-	-
Rentals and Sales	-	-	-	-	-	-	-	-
Interest Earnings	8.5	6.3	6.3	-	-	-	-	-
Lottery Sales	248.1	236.8	235.3	(1.5)				
Grants	-	-	-	-	-	-	-	-
Other Non-tax Revenue	50.2	54.9	89.5	34.6	1,030.4	1,030.4	1,075.5	45.1
Total Revenues	3,697.1	3,731.1	3,729.7	(1.4)	1,030.4	1,030.4	1,075.5	45.1
Expenditures								
Legislative	15.1	14.1	13.3	0.8	-	-	-	-
Judicial	90.3	91.6	91.4	0.2	9.8	9.8	9.1	0.7
Executive	128.2	159.9	134.5	25.4	112.4	112.4	50.0	62.4
Department of Technology & Information	37.3	38.8	41.3	(2.5)	29.6	29.6	29.1	0.5
Other Elective Offices	150.8	172.5	170.9	1.6	100.5	100.5	103.2	(2.7)
Legal	50.4	51.9	52.6	(0.7)	9.8	9.8	6.4	3.4
Department of State	24.2	24.0	23.8	0.2	47.8	47.8	48.7	(0.9)
Department of Finance	17.7	18.5	20.4	(1.9)	99.7	99.7	108.4	(8.7)
Department of Health & Social Services	1,049.0	1,062.4	1,061.9	0.5	106.3	106.3	112.6	(6.3)
Department of Services to Children, Youth and Their Families	133.9	139.4	141.9	(2.5)	19.7	19.7	20.6	(0.9)
Department of Corrections	257.8	264.8	265.0	(0.2)	4.2	4.2	2.9	1.3
Department of Natural Resources and Environmental Control	35.2	44.3	44.6	(0.3)	96.4	96.4	48.8	47.6
Department of Safety & Homeland Security	136.2	144.0	144.3	(0.3)	18.3	18.3	15.1	3.2
Department of Transportation	-	-	-	-	346.4	346.4	349.9	(3.5)
Department of Labor	7.8	7.9	7.9	-	13.7	13.7	12.3	1.4
Department of Agriculture	7.9	7.7	7.6	0.1	8.1	8.1	5.0	3.1
Department of Elections	4.0	3.9	6.5	(2.6)	-	-	-	-
Fire Prevention Commission	5.0	5.3	5.0	0.3	2.6	2.6	1.9	0.7
Delaware National Guard	4.4	4.8	4.8	-	-	-	-	-
Higher Education	215.9	224.6	226.7	(2.1)	-	-	1.0	(1.0)
Department of Education	1,172.5	1,197.8	1,194.1	3.7	5.1	5.1	3.5	1.6
Total Expenditures	$ 3,543.6	$ 3,678.2	$ 3,658.5	$ 19.7	$ 1,030.4	$ 1,030.4	$ 928.5	$ 101.9
Excess of Revenues over Expenditures	153.5	52.9	71.2	18.3	-	-	147.0	147.0
Budgetary Fund Balance, Beginning of Year	566.2	566.2	566.2	-	630.7	630.7	630.7	-
Budgetary Fund Balance, End of Year	$ 719.7	$ 619.1	$ 637.4	$ 18.3	$ 630.7	$ 630.7	$ 777.7	$ 147.0

Budgetary Fund Balance	
Designated:	
Budget Reserve Account	$ 198.9
Continuing and Encumbered Appropriations	276.4
Undesignated	162.1
Total	$ 637.4

(See Budgetary Basis vs. GAAP in Notes to Required Supplementary Information)

Statutory/Budgetary Reconciliations

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation is required of resulting basis, perspective and entity differences in the revenues in excess of (less than) expenditures and other financing sources (uses) between budgetary and GAAP presentations.

The following two schedules represent the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

Budget vs GAAP Revenue Reconciliation
For the Fiscal Year Ended June 30, 2013
(Expressed in Millions)

Total Budget Basis General and Special Fund Revenue for Fiscal Year 2013		$ 4,805.2
Adjustments:		
The financial reporting revenues do not include revenues that are part of the general budgetary revenues	(613.5)	
Non-budgetary General Revenues Reclassified to General Fund Revenue	637.1	
To Adjust Revenues, Other Financing Sources and Related Receivables and Deferred Revenue	(735.6)	
Total General Fund Revenues for Fiscal Year 2013		$ 4,093.2
Federal Fund Revenue	1,496.9	
Local School District Fund Revenue	545.3	
Capital Projects Fund Revenue	-	
		2,042.2
Total GAAP Basis Governmental Funds Revenue for Fiscal Year 2013		$ 6,135.4

Budget vs GAAP Expenditures Reconciliation
For the Fiscal Year Ended June 30, 2013
(Expressed in Millions)

Total Budget Basis General and Special Fund Expenditures for Fiscal Year 2013		$ 4,587.0
Adjustments:		
The financial reporting expenditures do not include expenditures that are part of the general budgetary revenues	(530.0)	
Non-budgetary General Expenditures Reclassified to General Fund Expenditures	656.5	
To Adjust Expenditures, Other Financing Uses and Related Accounts Payable, Accrued Liabilities	(359.4)	
Total General Fund Expenditures for Fiscal Year 2013		$ 4,354.1
Federal Fund Expenditures	1,490.6	
Local School District Fund Expenditures	506.6	
Capital Projects Fund Expenditures	226.1	
		2,223.3
Total GAAP Basis Governmental Funds Expenditures for Fiscal Year 2013		$ 6,577.4

Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 4,378 centerline miles and 1,601 bridges that the State is responsible to maintain.

The condition of the State's road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0.0 for poor pavement to 5.0 for pavement in good condition.

The condition of bridges is measured using the "Bridge Condition Rating" (BCR) which is based on the Federal Highway Administration (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 9, 0 to 4 for substandard bridges and 9 for bridges in good condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of between 6 and 9. A rating of 5 is considered fair. This information is taken from past "Bridge Inventory Status" reports.

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges. Due to the timing of these condition assessments, information for the fiscal year ended June 30, 2013 is not available.

State of Delaware
Department of Transportation
Supplementary Information For Governments That Use the
Modified Approach for Infrastructure Assets

Structural Rating Numbers and Percentages for Bridges

		Calendar Year Ended December 31					
		2013		2012		2010	
	BCR Condition Rating	Number	Percent	Number	Percent	Number	Percent
Good	6-9	1,151	71.9	1,149	72.3	1,137	72.8
Fair	5	334	20.9	322	20.2	313	20
Poor	0-4	116	7.2	120	7.5	112	7.2
Totals		1,601	100	1,591	100	1,562	100

Deck Rating Numbers and Percentages for Bridges

		Calendar Year Ended December 31					
		2013		2012		2010	
	OPC Condition Rating	Square Feet	Percent	Square Feet	Percent	Square Feet	Percent
Good	6-9	6,956,457	91.4	6,476,158	90.3	6,685,282	91.1
Fair	5	649,176	8.5	687,461	9.6	651,712	8.8
Poor	0-4	9,347	0.1	10,720	0.1	4,994	0.1
Totals		7,614,980	100	7,174,339	100	7,341,988	100

Center-Line Mile Numbers and Percentages for Road Pavement

		Calendar Year Ended December 31					
		2011		2009		2008	
	OPC Condition Rating	Center-Line Mile	Percent	Center-Line Mile	Percent	Center-Line Mile	Percent
Good	3.0-5.0	3,796	86.7	3,423	78.5	3,007	67.6
Fair	2.5-3.0	400	9.1	575	13.2	1000	22.5
Poor	Below 2.5	182	4.2	362	8.3	440	9.9
Totals		4,378	100	4,360	100	4,447	100

Comparison of Estimated-to-Actual Maintenance/Preservation*
(Expressed In Thousands)

	Fiscal Year ended June 30		
	2013	2012	2011
Estimated	$ 185,399	$ 243,600	$ 259,351
Actual	$ 233,810	$ 285,923	$ 248,973

* The estimated expenditures represent annual Bond Bill authorization. The actual expenditures represent the current year spending, which includes cumulative authorization.

Required Supplementary Information – Pension

The following tables present additional information related to funding status and progress. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

Delaware Public Employees' Retirement System (DPERS)

The amount shown below as actuarial accrued liability is a measure of the difference between the actuarial present value of future plan benefits, and the actuarial present value of future normal cost.

Schedule of Funding Status and Progress
(Expressed in Thousands)

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL AAL AAL (UAAL) Excess of Assets over Liabilities (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL/ (Excess) as % of Covered payroll (3) / (5)
State Employees*	6/30/2013	$ 7,519,770	$ 8,257,270	$ 737,500	91.1%	$ 1,877,105	39.3%
	6/30/2012	7,270,430	7,949,855	679,425	91.5%	1,881,097	36.1%
	6/30/2011	7,091,821	7,547,951	456,130	94.0%	1,783,603	25.6%
Special	6/30/2013	$ 329	$ 224	$ (105)	146.9%	N/A	N/A
	6/30/2012	366	264	(102)	138.6%	N/A	N/A
	6/30/2011	406	287	(119)	141.5%	N/A	N/A
Closed State Police +	6/30/2013	$ 2,668	$ 294,533	$ 291,865	0.9%	$ -	N/A
	6/30/2012	2,748	293,808	291,060	0.9%	124	234725.8%
	6/30/2011	2,414	286,010	283,596	0.8%	114	248768.4%
New State Police	6/30/2013	$ 317,814	$ 350,885	$ 33,071	90.6%	$ 56,289	58.8%
	6/30/2012	292,262	324,898	32,636	90.0%	$ 54,412	60.0%
	6/30/2011	270,625	286,890	16,265	94.3%	50,556	32.2%
Judiciary	6/30/2013	$ 63,512	$ 66,567	$ 3,055	95.4%	$ 10,416	29.3%
	6/30/2012	59,279	65,946	6,667	89.9%	10,387	64.2%
	6/30/2011	55,784	63,090	7,306	88.4%	9,624	75.9%
Diamond State Port Corporation	6/30/2013	$ 20,964	$ 25,136	$ 4,172	83.4%	$ 11,381	36.7%
	6/30/2012	18,930	23,039	4,109	82.2%	12,229	33.6%
	6/30/2011	17,198	20,632	3,434	83.4%	11,150	30.8%
County and Municipal Police and Firefighters	6/30/2013	$ 203,832	$ 207,740	$ 3,908	98.1%	68,122	5.7%
	6/30/2012	179,816	186,901	7,085	96.2%	67,091	10.6%
	6/30/2011	157,394	160,150	2,756	98.3%	59,418	4.6%
County and Municipal Other Employees	6/30/2013	$ 27,492	$ 29,312	$ 1,820	93.8%	$ 26,332	6.9%
	6/30/2012	23,851	25,189	1,338	94.7%	$ 22,435	6.0%
	6/30/2011	20,664	22,859	2,195	90.4%	20,580	10.7%

* Excludes liability and amortization payments due to cost-of-living adjustments. This liability is funded from the Post-Retirement Increase Fund and is funded over five years

\+ The Closed State Police Pension Plan is a pay-as-you-go pension plan.

N/A - Not Applicable

DelDOT - Delaware Transit Corporation – Pension Data

The most recent information available for Delaware Transit Corporation's annual pension cost and related information for each plan is as follows (note – the current year information is not available for each plan):

Schedule of Funding Status and Progress
(Expressed in Dollars)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) (Unfunded AAL (UAAL)) Excess of Assets over AAL (a-b)	(d) Funded Ratio (a / b)	(e) Annual Covered Payroll	(f) (UAAL) Excess as % of Covered Payroll (c / e)
DTC Pension Plan	07/01/2012	$ 15,941,868	$ 16,990,051	$ (1,048,183)	93.83%	$ 11,041,527	(9.49)%
	07/01/2011	15,121,491	16,236,313	(1,114,822)	93.13%	11,253,210	(9.91%)
	07/01/2010	12,329,167	12,841,594	(512,427)	96.01%	11,464,713	(4.47)%
Contributory Plan	01/1/2013	$ 32,243,870	$ 34,423,975	$ (2,180,105)	93.67%	$ 24,788,597	(8.79)%
	01/1/2012	30,863,722	32,171,013	(1,307,291)	95.94%	22,985,063	(5.69)%
	01/1/2011	29,920,228	29,601,647	318,581	101.08%	22,847,401	1.39%

Required Supplementary Information – OPEB Trust

The following table presents additional information related to funding status and progress. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

OPEB Trust

The amount shown below as "actuarial accrued liability" is a measure of the difference between the actuarial present value of future plan benefits and the actuarial present value of future normal cost.

Schedule of Funding Status and Progress
(Expressed in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded Actuarial Accrued Liabilities (UAAL)	(4) Funded Ratios (1) (2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3) / (5)
7/1/2013	$ 222	$ 5,988	$ 5,766	3.70%	$ 1,944	297%
7/1/2012	163	5,805	5,642	2.80%	1,885	299%
7/1/2011	144	6,769	6,625	2.10%	1,787	371%

Valuation Date	July 1, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4.25%
Rate of Salary Increases	3.25% (Plus Merit Scale)
Ultimate Rate of Medical Inflation	4.25%

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the OPEB obligations for the fiscal years as follows:

Schedule of Employer Contributions
(Expressed in Millions)

Fiscal Year	Annual Required Contribution	Percentage of Annual Annual OPEB Costs Contributed
2013	$397.8	52%
2012	490.5	38%
2011	488.1	37%

Required Supplementary Information – DTC OPEB Trust

The following table presents additional information related to funding status and progress. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due:

Schedule of Funding Status and Progress
(Expressed in Dollars)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	Excess (deficit) Of assets Over AAL (1-2)	Funded Ratio (1/2)	(3) Covered Payroll	(4) UAAL Excess (deficit) Excess (deficit) as a percentage of covered payroll ((1-2)/3
07/1/2012	$ 1,755,283	$ 121,627,000	$ (119,871,717)	1.44%	$ 34,537,878	(347.07%)
07/1/2011	1,605,000	125,866,000	(124,261,000)	1.28%	31,883,191	(389.74%)
07/1/2010	1,500,000	111,122,000	(109,622,000)	1.35%	31,293,725	(350.30%)

STATE OF DELAWARE

Information on Federal Awards in Accordance with OMB Circular A-133

Year ended June 30, 2013

(With Independent Auditors' Report Thereon)

STATE OF DELAWARE

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Note: Throughout this document the State of Delaware has used the designation "S" to indicate funds received under the stimulus program "American Recovery and Reinvestment Act."

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' 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:

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (the State) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated February 6, 2014. Our report includes a reference to other auditors who audited the financial statements of the Delaware State Housing Authority (DSHA), Delaware State University (DSU), Delaware Charter Schools, Riverfront Development Corporation (RDC), and Diamond State Port Corporation (DSPC) within the aggregate discretely presented component units, as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State'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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in item 2013-FS-001 in the accompanying schedule of findings and questioned costs to be a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free from 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*.

State's Responses to Findings

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Philadelphia, Pennsylvania
February 6, 2014

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133,
Audits of States, Local Governments, and Non-Profit Organizations

The Honorable Governor and
Honorable Members of the State Legislature
The State of Delaware:

Report on Compliance for Each Major Federal Program

We have audited State of Delaware's (the State's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2013. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The State's basic financial statements include the operations of Delaware State University, the Delaware State Housing Authority, the Diamond State Port Authority, Riverfront Development Corporation, and the Charter Schools, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2013. Our audit, described below, did not include the operations of Delaware State University, the Delaware State Housing Authority, the Diamond State Port Authority, Riverfront Development Corporation, and the Charter Schools because either other auditors were engaged to perform audits in accordance with OMB Circular A-133 for these entities, or because less than $500,000 in federal awards were expended.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the State's compliance.

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Basis for Qualified Opinion on the Major Federal Programs Identified in the Following Table

As described in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding the following:

State Agency	Finding Number	CFDA No.	Major Federal Program/Cluster	Compliance Requirement(s)
Department of Education – Appoquinimink School District, Brandywine School District, Capital School District, Christina School District, Caesar Rodney School District, Indian River School District, Lake Forest School District, Laurel School District, Milford School District, Red Clay Consolidated School District, Seaford School District, Sussex Tech School District, Woodbridge School District	2013-002	84.010, S-84.389	Title I Grants to Local Educational Agencies	Allowable Costs (Effort Reporting)
		84.027, 84.173, S-84.392	Special Education Cluster	
		84.367	Improving Teacher Quality State Grants	
		S-84.395	State Fiscal Stabilization Fund, Race-to-the-Top Incentive Grants, Recovery Act	
Department of Education	2013-006	84.010, S-84.389	Title I Grants to Local Educational Agencies	Procurement and Suspension and Debarment
		84.367	Improving Teacher Quality State Grants	
Department of Education – Brandywine School District	2013-008	84.010, S-84.389	Title I Grants to Local Educational Agencies	Special Test: School wide Plans
		84.367	Improving Teacher Quality State Grants	
		84.027, 84.173, S-84.392	Special Education Cluster	

State Agency	Finding Number	CFDA No.	Major Federal Program/Cluster	Compliance Requirement(s)
Department of Education - Brandywine School District, Capital School District, Christina School District, Caesar Rodney School District, Indian River School District, Red Clay Consolidated School District, Seaford School District, Colonial School District	2013-012	84.010, S-84.389	Title I Grants to Local Educational Agencies	Reporting - FFATA
		84.367	Improving Teacher Quality State Grants	
		84.027, 84.173, S-84.392	Special Education Cluster	
		10.558	Child and Adult Care Food Program	
Department of Health and Social Services – Division of State Service Centers	2013-015	93.568	Low-Income Home Energy Assistance Program	Reporting, Period of Availability
Department of Health and Social Services – Division of Social Services	2013-019	93.558, S-93.714	Temporary Assistance for Needy Families	Reporting
Department of Labor – Division of Employment & Training	2013-032	17.258, 17.259, 17.260, 17.278	Workforce Investment Act Cluster	Reporting
Department of Labor – Division of Employment & Training	2013-035	17.258, 17.259, 17.260, 17.278	Workforce Investment Act Cluster	Allowable Costs (Effort Reporting)
Department of Transportation	2013-043	20.500, 20.507, S-20.507	Federal Transit Cluster	Subrecipient Monitoring
Department of Transportation	2013-044	20.500, 20.507, S-20.507	Federal Transit Cluster	Reporting – FFATA

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to these programs.

Qualified Opinion on Major Federal Programs

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs identified above for the year ended June 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Program

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Schedule of Findings and Questioned Costs, Section 1: Summary of Auditors' Results, for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as 2013-003, 2013-005, 2013-007, 2013-009, 2013-010, 2013-011, 2013-014, 2013-016, 2013-017, 2013-018, 2013-020, 2013-021, 2013-022, 2013-030, 2013-031, 2013-033, 2013-34, 2013-036, 2013-038, 2013-039, 2013-040, 2013-041, 2013-042, 2013-045, and 2013-046. Our opinion on each major federal program is not modified with respect to these matters.

The State's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses**.**

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable

possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-002, 2013-006, 2013-008, 2013-009, 2013-011, 2013-012, 2013-015, 2013-016, 2013-017, 2013-018, 2013-019, 2013-020, 2013-022, 2013-023, 2013-024, 2013-025, 2013-027, 2013-029, 2013-030, 2013-031, 2013-032, 2013-035, 2013-41, 2013-043, 2013-044, and 2013-045 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-001, 2013-003, 2013-004, 2013-005, 2013-007, 2013-010, 2013-013, 2013-014, 2013-021, 2013-026, 2013-028, 2013-033, 2013,034, 2013-36, 2013-037, 2013-038, 2013-039, 2013-040, 2013-042, and 2013-046 to be significant deficiencies.

The State's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements. We issued our report thereon dated February 6, 2014, which included a reference to other auditors and contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Philadelphia, Pennsylvania
March 24, 2014

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

CFDA NO.		GRANT NAME		EXPENDITURES
		U.S. Department of Agriculture		
10.000		Unassigned	$	12,617.74
10.025		Plant and Animal Disease, Pest Control, and Animal Care		403,879.61
10.069		Conservation Reserve Program		52,444.15
10.163		Market Protection and Promotion		3,160.01
10.169		Specialty Crop Block Grant Program		30,574.36
10.170		Specialty Crop Block Grant Program-Farm Bill		155,329.10
10.171		Organic Certification Cost Share Programs		6,696.72
10.458		Crop Insurance Education in Targeted States		237,715.96
10.475		Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		486,705.87
10.550		Food Distribution		4,067,437.04
		SNAP Cluster		
10.551		Supplemental Nutrition Assistance Program (SNAP)	233,623,264.00	
10.561		State Administrative Matching Grants for the Supplemental Nutritional Assistance Program	11,383,949.62	
		Total Food Stamp Cluster		**245,007,213.62**
		Child Nutrition Cluster		
10.553		School Breakfast Program	9,471,649.24	
10.555		National School Lunch Program	29,725,672.84	
10.556		Special Milk Program for Children	33,962.15	
10.559		Summer Food Service Program for Children	2,068,393.58	
		Total Child Nutrition Cluster		**41,299,677.81**
10.557		Special Supplemental Nutrition Program for Women, Infants & Children		10,547,030.11
10.558		Child and Adult Care Food Program		14,985,465.07
10.560		State Administrative Expenses for Child Nutrition		738,662.29
		Food Distribution Cluster		
10.565		Commodity Supplemental Food Program	168,999.77	
10.568		Emergency Food Assistance Program (Administrative Costs)	113,791.88	
10.569		Emergency Food Assistance Program (Food Commodities)	1,427,930.00	
		Total Food Distribution Cluster		**1,710,721.65**
10.578	**S**	ARRA - WIC Grants to States (WGS)		1,508,523.37
10.579		Child Nutrition Discretionary Grants Limited Availability		225,076.92
10.582		Fresh Fruit and Vegetable Program		1,848,362.95
10.664		Cooperative Forestry Assistance		162,392.54
10.675		Urban and Community Forestry Program		218,992.57
10.676		Forest Legacy Program		2,663.28
10.678		Forest Stewardship Program		146,421.94
10.680		Forest Health Protection		127,200.50
10.912		Environmental Quality Incentives Program		52,589.37
		Total U.S. Department of Agriculture		**324,037,554.55**

(Continued)

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

CFDA NO.		GRANT NAME	EXPENDITURES	
		U.S. Department of Commerce		
		Economic Development Cluster		
11.300		Investments for Public Works and Economic Development Facilities	8,452.50	
11.307		Economic Development Special Economic Development and Adjustment Adjustment Assistance Program	344,243.37	
		Total Economic Development Cluster		**352,695.87**
11.313		Trade Adjustment Assistance		25,000.00
11.419		Coastal Zone Management Administration Awards		1,239,237.62
11.420		Coastal Zone Management Estuarine Research Reserves		632,394.56
11.439		Marine Mammal Data Program		82,500.00
11.472		Unallied Science Program		278,912.18
11.474		Atlantic Coastal Fisheries Cooperative Management Act		136,486.32
11.555		Public Safety Interoperable Communications Grant Program		4,477.95
11.557	S	ARRA-Broadband technology Opportunities Program		572,756.66
11.558	S	ARRA-State Broadband Data and Development Grant Program		406,026.36
		Total U.S. Department of Commerce		**3,730,487.52**
		U.S. Department of Defense		
12.000		Issue of Department Of Defense excess equipment		130,993.38
12.113		State Memorandum of Agreement Program for the Reimbursement of Technical Services		16,991.25
12.401		National Guard Military Operations and Maintenance (O&M) Projects Total National Guard Military Operations and Maintenance		13,169,696.64
12.900		Language Grant Program		934.25
		Total U.S. Department of Defense		**13,318,615.52**
		U.S. Department of Housing and Urban Development		
14.235		Supportive Housing Program		2,834.91
14.401		Fair Housing Assistance Program		99,820.42
		Total U.S. Department of Housing and Urban Development		**102,655.33**
		U.S. Department of the Interior		
		Fish and Wildlife Cluster		
15.605		Sport Fish Restoration	3,449,083.18	
15.611		Wildlife Restoration	1,030,971.90	
		Total Fish and Wildlife Cluster		**4,480,055.08**
15.614		Coastal Wetlands Planning, Protection and Restoration Act		28,140.53
15.615		Cooperative Endangered Species Conservation Fund		18,675.69
15.633		Landowner Incentive		176,453.28
15.634		State Wildlife Grants		666,417.77
15.654		Visitor Facility Enhancements		5,111.80

(Continued)

CFDA NO.		GRANT NAME		EXPENDITURES
15.657		Endangered Species Conservation Recovery		7,274.40
15.904		Historic Preservation Fund Grants-In-Aid		553,454.13
15.916		Outdoor Recreation, Acquisition, Development and Planning		371,406.74
15.930		Chesapeake Bay Gateways Network		35,000.00
		Total U.S. Department of the Interior		**6,341,989.42**
		U.S. Department of Justice		
16.013		Violence Against Women Act Court Training and Improvement Grants		23,984.09
16.017		Sexual Assault Services Program		125,576.81
16.523		Juvenile Accountability Incentive Block Grants		255,466.09
16.527		Supervised Visitation, Safe Havens for Children		2,752.26
16.540		Juvenile Justice and Delinquency Prevention - Allocation to States		425,972.41
16.543		Missing Children's Assistance		211,640.74
16.548		Title V - Delinquency Prevention Program		33,050.75
16.550		State Justice Statistics Program for Statistical Analysis Centers		60,968.63
16.554		National Criminal History Improvement Program		213,884.40
16.575		Crime Victim Assistance		1,787,444.66
16.576		Crime Victim Compensation		1,008,383.32
16.580		Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		283,030.94
16.585		Drug Court Discretionary Grant		107,913.43
16.588		Violence Against Women Formula Grants	724,254.98	
16.588	S	ARRA-Violence Against Women Formula Grants	1,002.94	
		Total Violence Against Women Formula Grants		725,257.92
16.593		Residential Substance Abuse Treatment for State Prisoners		104,287.11
16.595		Community Capacity Development Office		45,836.53
16.606		State Criminal Alien Assistance Program (SCAAP)		189,155.22
16.607		Bulletproof Vest Partnership Program		49,635.02
16.609		Project Safe Neighborhoods		83,975.69
16.710		Public Safety Partnership and Community Policing Grants		297,938.79
16.726		Juvenile Mentoring Program		11,468.83
16.727		Enforcing Underage Drinking Laws Program		260,781.88
		JAG Program Cluster		
16.738		Edward Byrne Memorial Justice Assistance Grant Program	1,429,855.73	
16.803		Edward Byrne Memorial Justice Assistance Grant	295,279.24	
		Total JAG Program Cluster		**1,725,134.97**
16.740		Statewide Automated Victim Information Notification (SAVIN) Program		11,635.05
16.741		Forensic DNA Capacity Enhancement Program		204,126.23
16.742		Paul Coverdell Forensic Sciences Improvement Grant Program		284,994.64
16.746		Capital Case Litigation		53,583.23
16.748		Convicted Offender and/or Arrestee DNA Backlog Reduction Program		(38,331.48)
16.750		Support for Adam Walsh Act Implementation Grant Program		216,670.74
16.751		Edward Byrne Memorial Competitive Grant Program		85,059.00
16.754		Harold Rogers Prescription Drug Monitoring Program		120,326.82

CFDA NO.		GRANT NAME		EXPENDITURES
16.800	S	ARRA-Recovery Act-Internet Crimes Against Children Task Force Program		103,941.02
16.812		Second Chance Act Prisoner Reentry Initiative		766,995.13
16.816		John R Justice Prosecutors and Defenders Incentive Act		55,401.96
16.821		Juvenile Justice Reform and Reinvestment Demonstration Program		15,929.42
		Total U.S. Department of Justice		**9,913,872.25**
		U.S. Department of Labor		
17.002		Labor Force Statistics		615,846.99
17.005		Compensation and Working Conditions		70,665.55
17.203		Labor Certification for Alien Workers		99,492.84
		Employment Services Cluster		
17.207		Employment Service / Wagner-Peyser Funded Activities	2,556,659.22	
17.801		Disabled Veterans' Outreach Program (DVOP)	232,767.10	
17.804		Local Veterans' Employment Representative Program	298,328.81	
		Total Employment Services Cluster		**3,087,755.13**
17.225		Unemployment Insurance	137,409,048.75	
17.225	S	Unemployment Insurance	53,264,493.14	
		Total Unemployment Insurance		190,673,541.89
17.235		Senior Community Service Employment Program		1,808,630.47
17.245		Trade Adjustment Assistance		439,751.86
		Workforce Investment Act (WIA) Cluster		
17.258		WIA Adult Program	1,679,075.61	
17.259		WIA Youth Activities	1,695,793.88	
17.260		WIA Dislocated Workers	70,553.87	
17.278		WIA Dislocated Worker Formula Grants	2,504,365.86	
		Total WIA Cluster		**5,949,789.22**
17.271		Work Opportunity Tax Credit Program		63,905.10
17.273		Temporary Labor Certification for Foreign Workers		591.31
17.277		Workforce Investment Act (WIA) National Emergency Grants		568,523.59
17.282		Trade Adjustment Assistance Community College and Career Training (TAACCCT)		1,716,198.13
17.504		Consultation Agreements		468,097.15
17.505		OSHA Data Initiative		14,658.01
		Total U.S. Department of Labor		**205,577,447.24**
		U.S. Department of Transportation		
20.XXX		Coast Guard Marine, Harbor, and Waterfront Services		1,090,123.95
20.106		Airport Improvement Program (FAA)		185,645.20
20.108		Aviation Research Grants		46,173.28
20.218		National Motor Carrier Safety		918,085.28
20.231		Performance and Registration Information Systems Management		4,494.09

(Continued)

CFDA NO.		GRANT NAME		EXPENDITURES
20.232		Commercial Driver's License Program Improvement Grant		83,928.34
20.237		Commercial Vehicle Information Systems and Networks		354,393.40
20.238		Commercial Driver's License Information System (CDLIS) Modernization Grant		66,151.98
20.317		Capital Assistance to States - Intercity Passenger Rail Service		101,674.34
		Highway Planning and Construction Cluster		
20.205		Highway Planning and Construction	182,239,800.15	
20.205	S	ARRA - Highway Planning & Construction	3,468,748.12	
20.219		Recreational Trails Program	429,025.05	
		Total Highway Planning and Construction Cluster		**186,137,573.32**
		Federal Transit Cluster		
20.500		Federal Transit - Capital Investment Grants	9,292,425.70	
20.507		Federal Transit Cluster	7,879,812.75	
20.507	S	ARRA - Federal Tranit Cluster	7,086,172.87	
		Total Federal Transit Cluster		**24,258,411.32**
		Transit Services Program Cluster		
20.513		Capital Assistance Program	437,974.91	
20.516		Job Access_Reverse Commute	23,956.57	
20.521		New Freedom Program	201,580.97	
		Total Transit Services Program Cluster		**663,512.45**
		Highway Safety Cluster		
20.600		State and Community Highway Safety	1,762,403.23	
20.601		Alcohol Impaired Driving Countermeasures Incentive Grants I	1,982,417.77	
20.602		Occupant Protection Incentive Grants	131,628.00	
20.609		Safety Belt Performance Grants	13,894.99	
20.610		State Traffic Safety Information System Improvement Grants	258,565.68	
20.610	S	ARRA - State Traffic Safety Information System Improvement Grants	148,078.43	
20.612		Incentive Grant Program to Increase Motorcyclist Safety	140,765.67	
20.613		Child Safety and Child Booster Seats Incentive Grants	40,239.49	
		Total Highway Safety Cluster		**4,477,993.26**
20.505		Federal Transit_Metropolitan Planning Grants		350,184.12
20.509		Formula Grants for Other Than		217,149.75
20.519		Clean Fuels - FTA & FHWA		6,804.77
20.607		Alcohol Open Container Requirements		523,136.92
20.614		National Highway Transportation Safety Administration Discretionary Safety		275,648.08
20.700		Pipeline Safety		4,199.25
20.703		Interagency Hazardous Materials Public Sector Training and Planning Grants		108,243.27
20.721		PHMSA Pipeline Safety Program One Call Grant		20,420.07
20.933		National Infrastructure Investments - TIGER Discretionary Grants		133,037.57
20.933	S	ARRA - National Infrastructure Investments - TIGER Discretionary Grants		628,822.04
		Total U.S. Department of Transportation		**220,655,806.05**
		Department of the Treasury		
21.XXX		Unassigned - Asset Forfeiture - Treasury		618,026.04
		Total Department of the Treasury		**618,026.04**

(Continued)

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

CFDA NO.		GRANT NAME		EXPENDITURES
		Equal Employment Opportunity Commission		
30.001		Employment Discrimination - Title VII of the Civil Rights Act of 1964		269,667.24
		Total Equal Employment Opportunity Commission		**269,667.24**
		General Services Administration		
39.011		Unassigned		1,691,355.98
		Total General Service Administration		**1,691,355.98**
		Institute of Museum and Library Services		
45.310		Grants to States		1,030,229.26
		Total Institute of Museum and Library Services		**1,030,229.26**
		National Endowment for the Arts		
45.025		Promotion of the Arts - Partnership Agreements		705,503.65
		Total National Endowment for the Arts		**705,503.65**
		National Science Foundation		
47.076		Education and Human Resources	171,212.63	
47.076	S	ARRA-Education and Human Resources	212,144.08	
		Total Education and Human Resources		383,356.71
47.080		Office of Cyber infrastructure		89,280.17
		Total National Science Foundation		**472,636.88**
		Small Business Administration		
59.000		Displaced Business Loans		214,406.52
		Total Small Business Administration		**214,406.52**
		U.S. Department of Veterans Administration		
64.203		State Cemetery Grants		143,490.29
		Total U.S. Department of Veterans Administration		**143,490.29**

(Continued)

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

CFDA NO.		GRANT NAME		EXPENDITURES
		U.S. Environmental Protection Agency		
66.001		Air Pollution Control Program Support		1,300,837.28
66.032		State Indoor Radon Grants		60,374.07
66.034		Surveys Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act		171,618.63
66.040		State Clean Diesel Grant Program		620,463.64
66.202		Congressionally Mandated Projects		37,895.74
66.419		Water Pollution Control State and Interstate Program Support		1,601,006.67
66.432		State Public Water System Supervision		525,296.13
66.433		State Underground Water Source Protection		37,215.19
66.454		Water Quality Management Planning		101,022.36
66.456		Comprehensive Estuarine Management		33,300.00
66.458		Capitalization Grants for Clean Water State Revolving Funds		8,447,649.76
66.460		Nonpoint Source Implementation Grants		1,637,391.78
66.461		Wetland Program Development Grants		220,191.17
66.466		Chesapeake Bay Program		839,827.75
66.468		Capitalization Grants for Drinking Water State Revolving Funds		16,293,268.04
66.472		Beach Monitoring and Notification Program Implementation Grants		277,202.48
66.605		Performance Partnership Grants		288,212.12
66.608		Environmental Information Exchange Network Grant Program and Related Assistance		55,907.24
66.707		TSCA Title IV State Lead Grants Certification of Lead Based Paint Professionals		185,935.99
66.801		Hazardous Waste Management State Program Support		661,654.84
66.802		Hazardous Substance Response Trust Fund		363,214.20
66.804		Underground Storage Tank Prevention, Detection and Compliance Program		729,324.03
66.809		Core Program Cooperative Agreements		698,688.80
66.817		State and Tribal Response Program Grants		464,787.08
66.818		Brownfield's Assessment & Cleanup Cooperative Agreements		66,276.39
66.951		Environmental Education Grants		20,598.09
		Total U.S. Environmental Protection Agency		**35,739,159.47**
		U.S. Department of Energy		
81.000		Unassigned		26,817.50
81.041		State Energy Program	3,136,221.40	
81.041	S	ARRA-State Energy Program	893,407.86	
		Total State Energy Program		4,029,629.26
81.042		Weatherization Assistance for Low-Income Persons	878,500.24	
81.042	S	ARRA-Weatherization Assistance for Low-Income Persons	2,749,974.50	
		Total Weatherization Assistance for Low-Income Persons		3,628,474.74
81.086		Conservation Research and Development		25,000.00
81.122	S	ARRA-Electricity Delivery and Energy Reliability, Research, Development & Analysis		170,314.88
81.128	S	ARRA-Energy Efficient and Conservation Block Grant Program		1,454,443.95
		Total U.S. Department of Energy		**9,334,680.33**

(Continued)

CFDA NO.		GRANT NAME	EXPENDITURES	
		U.S. Department of Education		
84.002		Adult Education - State Grant Program		1,702,800.03
		Title I, Part A Cluster		
84.010		Title I Grants to Local Educational Agencies	38,912,260.56	
84.389	S	ARRA-Title I Grants to Local Educational Agencies, Recovery Act	191,738.56	
		Total Title 1, Part A Cluster		**39,103,999.12**
84.011		Migrant Education - State Grant Program		343,822.81
84.013		Title I State Agency Program for Neglected and Delinquent Children		460,086.26
		Special Education Cluster (IDEA)		
84.027		Special Education - Grants to States (IDEA, Part B)	32,722,758.11	
84.173		Special Education - Preschool Grants (IDEA Preschool)	1,421,027.90	
		Total Special Education Cluster		**34,143,786.01**
		Student Financial Assistance Cluster		
84.007		Federal Supplemental Educational Opportunity Grants	403,583.45	
84.033		Federal Work Study Program	287,989.48	
84.063		Federal Pell Grant Program	21,976,174.44	
84.268		Federal Direct Student Loan	9,222,933.00	
		Total Student Financial Assistance Cluster		**31,890,680.37**
		TRIO Cluster		
84.042		TRIO - Student Support Services	258,047.05	
84.044		TRIO - Talent Search	312,893.27	
84.047		TRIO - Upward Bound	1,374,716.05	
		Total TRIO Cluster		**1,945,656.37**
84.048		Vocational Education - Basic Grants to States		4,476,097.25
		Vocational Rehabilitation Cluster		
84.126		Rehabilitation Services - Vocational Rehabilitation Grants to States	12,437,747.31	
		Total Rehabilitation Cluster		**12,437,747.31**
		Independent Living State Grants Cluster		
84.169		Independent Living - State Grants	360,920.44	
		Total Independent Living State Grants Cluster		**360,920.44**
		Independent Living Services for Older Individuals Who Are Blind Cluster		
84.177		Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	226,508.88	
		Total Independent Living Serv. For Older Individuals/Blind Cluster		**226,508.88**
		Early Intervention Services (IDEA) Cluster		
84.181		Special Education - Grants for Infants and Families with Disabilities	2,400,077.22	
		Total Early Intervention Services (IDEA) Cluster		**2,400,077.22**

(Continued)

CFDA NO.		GRANT NAME		EXPENDITURES
84.392	S	ARRA-Special Education - Preschool Grants Recovery Act		(14,760.77)
84.410	S	ARRA - Education Jobs Fund		4,322,887.17
84.412		Race to the Top Early Learning		2,500,143.90
84.184		Safe and Drug-Free Schools and Communities - National Program		61,567.55
84.186		Safe and Drug-Free Schools and Communities - State Grants		19,158.55
84.187		Supported Employment Services for Individuals with the Most Significant Disabilities		366,185.57
		Education of Homeless Children and Youth Cluster		
84.196		Education for Homeless Children and Youth	164,510.85	
84.387		Education for Homeless Children and Youth Recovery Act	1,034,025.38	
		Total Education of Homeless Children and Youth Cluster		**1,198,536.23**
84.213		Even Start - State Educational Agencies		5,411.24
84.215		Fund for the Improvement of Education		384,477.29
84.265		Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training		19,346.42
84.287		Twenty-First Century Community Learning Centers		3,978,498.78
		Educational Technology State Grants Cluster		
84.318		Education Technology State Grants	148,937.04	
		Total Educational Technology State Grants Cluster		**148,937.04**
84.323		Special Education-State Program Improvement Grants for Children with Disabilities		547,226.01
84.326		Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		68,530.99
84.330		Advanced Placement Program		45,228.00
84.331		Grants to States for Workplace and Community Transition Training for Incarcerated Individuals		15,484.21
84.358		Rural Education Achievement Program		190,754.33
84.365		English Language Acquisition Grants		1,113,549.04
84.366		Mathematics and Science Partnerships		803,224.92
84.367		Improving Teacher Quality State Grants		11,340,478.07
84.369		Grants for State Assessments and Related Activities		1,588,476.20
		School Improvement Grants Cluster		
84.377		School Improvement Grants	1,284,259.12	
84.388	S	ARRA-School Improvement Grants, Recovery Act	3,163,139.06	
		Total School Improvement Grants Cluster		**4,447,398.18**
		Statewide Data Systems Cluster		
84.372		Statewide Data Systems	912,506.09	
		Total Statewide Data Systems Cluster		**912,506.09**
84.378		College Access Challenge Grant Program		320,956.55
84.395	S	ARRA-State Fiscal Stabilization Fund (SFSF)-Race-to-the-top Incentive Grants, Recovery Act		31,417,460.78
		Total U.S. Department of Education		**195,293,844.41**

(Continued)

CFDA NO.	GRANT NAME		EXPENDITURES
	U.S. Election Assistance Commission		
90.401	Help American Vote Act Requirements Payments		3,673.68
	Total U.S. Election Assistance Commission		**3,673.68**
	U.S. Department of Health and Human Services		
93.000	Unassigned		1,584.91
93.008	Medical Reserve Corps Small Grant Program		4,524.75
93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation		26,902.87
93.042	Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals		95,435.19
93.043	Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services		143,971.70
	Aging Cluster		
93.044	Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	2,102,621.99	
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,639,804.28	
93.053	Nutrition Services Incentive Program	593,276.25	
	Total Aging Cluster		**5,335,702.52**
93.048	Special Programs for the Aging-Title IV and Title II Discretionary Projects		484,482.76
93.052	National Family Caregiver Support		528,626.42
93.069	Public Health Emergency Preparedness		5,633,727.94
93.071	Medical Enrollment Assistance Program		13,679.62
93.072	Lifespan Respite Care Program		170,930.97
93.092	Personal Responsibility Education Program		284,605.01
93.103	Food and Drug Administration Research		6,355.00
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)		1,651,909.16
93.110	Maternal and Child Health Federal Consolidated Programs		579,745.04
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		262,565.47
93.127	Emergency Medical Services for Children		168,327.46
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices		244,075.64
93.136	Injury Prevention and Control Research and State and Community Based Programs		249,770.37
93.150	Projects for Assistance in Transition from Homelessness (PATH)		352,884.63
93.165	Grants for State Loan Repayment		57,708.60
93.217	Family Planning Services		1,191,584.07
93.236	Grants for Dental Public Health Residency Training		538,531.48
93.243	Substance Abuse and Mental Health Services Projects of Regional and National Significance		3,750,146.11
93.251	Universal Newborn Hearing Screening		178,816.74
93.270	Adult Viral Hepatitis Prevention and Control		108,795.44

(Continued)

CFDA NO.		GRANT NAME	EXPENDITURES	
		Immunization Cluster		
93.268		Immunization Grants	10,506,428.55	
		Total Immunization Cluster		**10,506,428.55**
93.279		Drug Abuse Research Programs		27,149.86
93.283		Centers for Disease Control and Prevention, Investigations, and Technical Assistance		3,402,819.24
93.296		State Partnership Grant Program to Improve Minority Health		122,968.68
93.402	S	ARRA - State Loan Repayment Program		10,200.00
93.414	S	ARRA - State Primary Care Offices		68,679.00
93.505		Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		4,123,087.69
93.506		ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers		1,356,183.87
93.507		Strengthening Public Health Infrastructure for Improved Health Outcomes		248,687.23
93.518		Affordable Care Act (ACA) Improvements for Patients and Providers		21,047.69
93.520		Affordable Care Act (ACA) Communities Putting Prevention to Work		42,130.00
		Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements		526,553.98
93.525		State Planning and Establishment Grants for the Affordable Care Act (ACA)s Exchanges		1,667,589.35
93.539		Prevention and Public Health Fund (ACA)		67,037.50
93.544		Coordinated Chronic Disease Prevention		179,253.09
93.556		Promoting Safe and Stable Families		1,081,735.46
		TANF Cluster		
93.558		Temporary Assistance for Needy Families	29,609,413.27	
		Total TANF Cluster		**29,609,413.27**
93.563		Child Support Enforcement		34,825,426.87
93.566		Refugee and Entrant Assistance-State Administered Programs		85,581.70
93.568		Low-Income Home Energy Assistance		11,868,317.21
		CSBG Cluster		
93.569		Community Services Block Grant	3,468,019.33	
		Total CSBG Cluster		**3,468,019.33**
93.586		State Court Improvement Program		276,818.61
93.590		Community Based Resource Centers		13,000.00
		CCDF Cluster		
93.575		Child Care and Development Block Grant	6,552,249.87	
93.596		Child Care Mandatory & Matching Funds of the Child Care and Development Fund	12,025,637.76	
		Total CCDF Cluster		**18,577,887.63**
93.597		Grants to States for Access and Visitation Programs		78,641.58
93.599		Chafee Education and Training Vouchers Program (ETV)		89,612.08
		Head Start Cluster		
93.600		Head Start	114,441.00	
93.708	S	ARRA - Head Start	382,421.22	
		Total Head Start Cluster		**496,862.22**

(Continued)

CFDA NO.		GRANT NAME		EXPENDITURES
93.603		Adoption Incentive Payments		46,411.00
93.617		Voting Access for Individuals		44,280.92
93.630		Developmental Disabilities Basic Support and Advocacy Grants		453,320.93
93.643		Children's Justice Grants to States		105,480.67
93.645		Child Welfare Services - State Grants		595,288.85
93.658		Foster Care - Title IV-E		4,933,865.53
93.659		Adoption Assistance		1,461,124.46
93.667		Social Services Block Grant		4,890,283.57
93.669		Child Abuse and Neglect State Grants		104,699.90
93.671		Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes		666,059.47
93.674		Chafee Foster Care Independent Living		588,178.51
93.717	S	ARRA - Preventing Healthcare - Associated Infections		2,346.40
93.719	S	ARRA - State Grants to Promote Health Information Technology		133,325.00
93.733		Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance		3,549.54
93.735		State Public Health Approaches for Ensuring Quitline Capacity		62,599.00
93.744		Breast and Cervical Cancer Screening Opportunities for States		72,062.00
93.767		Children's Health Insurance Program		16,537,568.07
		Medicaid Cluster		
93.775		State Medicaid Fraud Control Units	1,444,340.89	
93.777		State Survey and Certification of Health Care Providers and Suppliers	1,781,107.51	
93.778		Medical Assistance Program	910,817,289.72	
		Total Medicaid Cluster		**914,042,738.12**
93.779		Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations		216,293.67
93.791		Money Follows the Person Rebalancing Demonstration		738,213.10
93.859		Pharmacological Sciences		196,037.92
93.889		National Bioterrorism Hospital Preparedness Program		1,482,215.90
93.913		Grants to States for Operation of Offices of Rural Health		189,935.02
93.917		HIV Care Formula Grants		4,108,365.36
93.938		Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems		195,835.64
93.940		HIV Prevention Activities Health Department Based		1,095,518.68
93.944		Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		468,190.43
93.946		Cooperative Agreements to Support State-Based Safe Motherhood & Infant Health Initiative Programs		80,043.73
93.958		Block Grants for Community Mental Health Services		710,241.55
93.959		Block Grants for Prevention and Treatment of Substance Abuse		6,106,959.81
93.977		Preventive Health Services Sexually Transmitted Diseases Control Grants		379,946.46
93.991		Preventive Health and Health Services Block Grant		104,042.07
93.994		Maternal and Child Health Services Block Grant to the States		1,902,879.55
		Total U.S. Department of Health and Human Services		**1,107,624,422.39**

CFDA NO.	GRANT NAME		EXPENDITURES
	Corporation for National and Community Service		
94.002	Retired and Senior Volunteer Program		125,466.47
94.003	State Commissions		166,432.81
94.006	AmeriCorps		747,012.88
94.007	Program Development and Innovation Grants		55,018.04
94.009	Training and Technical Assistance		18,392.31
	Foster Grandparent/Senior Companion Cluster		
94.011	Foster Grandparent Program	486,297.78	
	Total Foster Grandparent/Senior Companion Cluster		**486,297.78**
	Total Corporation for National and Community Service		**1,598,620.29**
	Social Security Administration		
	Disability Insurance/SSI Cluster		
96.001	Social Security - Disability Insurance	7,142,376.95	
	Total Disability Insurance/SSI Cluster		**7,142,376.95**
	Total Social Security Administration		**7,142,376.95**
	U.S. Department Homeland Security		
97.001	Special Projects		365,282.80
	Homeland Security Cluster		
97.067	Homeland Security Grant Program	10,158,026.64	
	Total Homeland Security Cluster		**10,158,026.64**
97.012	Boating Safety Financial Assistance		1,169,114.11
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants		43,621.15
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)		99,995.56
97.029	Flood Mitigation Assistance		175,409.50
97.036	Public Assistance Grants		1,994,787.21
97.039	Hazard Mitigation Grant		78,508.30
97.041	National Dam Safety Program		45,693.30
97.042	Emergency Management Performance Grants		2,547,073.17
97.043	State Fire Training Systems Grants		3,852.32
97.045	Cooperating Technical Partners		342,073.76
97.047	Pre-Disaster Mitigation		65,524.32
97.052	Emergency Operations Center		869,166.00
97.055	Interoperable Communications Equipment		266,535.68

(Continued)

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2013

CFDA NO.		GRANT NAME		EXPENDITURES
97.056		Port Security Grant Program		756,053.81
97.078		Buffer Zone Protection Plan (BZPP)		787,968.00
97.089		Driver's License Security Grant Program (Dept. of Homeland Security, FEMA)		490,877.58
97.116	S	ARRA-Port Security Grant Program		299,407.60
		Total U.S. Department Homeland Security		**20,558,970.81**
		Total Expenditures of Federal Awards	$	**2,166,119,492.07**

Legend:

S Award made under the American Recovery and Reinvestment Act

(Continued)

(1) Reporting Entity

The accompanying schedule of expenditures of federal awards (SEFA) presents the activity of all federal financial assistance programs of the State of Delaware (the State), except for those programs administered by the Delaware State University, the Diamond State Port Authority, the Delaware State Housing Authority, Riverfront Development Corporation, and the Charter Schools. The State's reporting entity is defined in note 1 to the State's basic financial statements.

(2) Basis of Accounting

The accompanying SEFA is presented using the cash basis of accounting, except for the inclusion of noncash items as required by OMB Circular A-133 as described in note (5) below. Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the State's basic financial statements.

(3) Federal Direct Student Loan Program

Federally guaranteed loans issued to students of Delaware Technical and Community College (the College) by financial institutions during the year ended June 30, 2013 totaled $9,222,933. This amount is included on the SEFA.

The College is responsible only for the performance of certain administrative duties with respect to federally guaranteed student loan programs, and accordingly, it is not practical to determine the balance of loans outstanding to students and former students of the College under these programs.

(4) Unemployment Insurance Funds

State unemployment tax revenues and the government and nonprofit contributions in lieu of State taxes (State UI funds) must be deposited into the Unemployment Trust Fund in the U.S. Treasury. Use of these funds is restricted to pay benefits under the federally approved State Unemployment Law. State UI funds as well as federal funds are reported in the SEFA under CFDA #17.225. The claim payments included in the SEFA at June 30, 2013 are $177,894,022 which includes ARRA claims of $53,084,069.

(5) Noncash Assistance

The State is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements. Noncash amounts received by the State are included in the SEFA as follows:

CFDA Number	Program Name	Amount
10.550	Food Distribution (Commodities)	$2,738,649
10.551	Supplemental Nutrition Assistance Program (EBT Payments)	233,623,264
10.569	Emergency Food Assistance Program (Commodities)	1,427,930
93.268	Immunization Grants (Vaccines)	8,869,867

(6) Supplemental Nutrition Assistance Program

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 7.79 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2013.

(7) Subrecipients

It is not practical based on current systems to provide subrecipient expenditures by federal program.

SCHEDULE OF FINDINGS & QUESTIONED COSTS

Section 1: Summary of Auditors' Results

(1) Summary of Auditors' Results

Basic Financial Statements

(a) The type of report issued by KPMG LLP on the basic financial statements: **Unmodified.**

(b) Material weaknesses in the internal control over financial reporting were disclosed by KPMG LLP in connection with the audit of the basic financial statements: **Yes.**

(c) Significant deficiencies: **No.**

(d) Noncompliance which is material to the basic financial statements: **No.**

Federal Awards

(e) Material weaknesses identified in the internal control over major programs: **Yes.**

Major programs with material weaknesses:

CFDA No.	Program Name
10.551, 10.561	Supplemental Nutrition Assistance Program Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
17.258, 17.259, 17.260, 17.278	Workforce Investment Act Cluster
20.205, S-20.205, 20.219	Highway Planning and Construction Cluster
20.500, 20.507, S-20.507	Federal Transit Cluster
84.010, S-84.389	Title I Grants to Local Educational Agencies
84.027, 84.173, S-84.392	Special Education Cluster
84.367	Improving Teacher Quality Grants
S-84.395	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
93.069	Public Health Emergency Preparedness
93.268	Immunization Cluster
93.558	Temporary Assistance for Needy Families Cluster

CFDA No.	Program Name
93.568	Low-Income Home Energy Assistance Program
93.563	Child Support Enforcement
93.575, 93.596	Child Care Cluster

(f) Significant deficiencies identified in the internal control over major programs: **Yes.**

Major programs with significant deficiencies:

CFDA No.	Program Name
10.551, 10.561	Supplemental Nutrition Assistance Program Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
17.225, S-17.225	Unemployment Insurance
17.258, 17.259, 17.260, 17.278	Workforce Investment Act Cluster
20.500, 20.507, S-20.507	Federal Transit Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds
84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster
84.010, S-84.389	Title I Grants to Local Educational Agencies, Part A, Cluster
84.027, 84.173, S-84.392	Special Education Cluster
84.367	Improving Teacher Quality State Grants
84.395	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
93.268	Immunization Cluster
93.558	Temporary Assistance For Needy Families Cluster

CFDA No.	Program Name
93.775, 93.777, 93.778	Medicaid Cluster
96.001	Disability Insurance/SSI Cluster

(g) The type of report issued on compliance for major programs:

Type of Opinion	Program Name
Qualified	
10.558	Child and Adult Care Food Program
17.258, 17.259, 17.260, 17.278	Workforce Investment Act Cluster
20.500, 20.507, S-20.507	Federal Transit Cluster
84.010, S-84.389	Title I Grants to Local Educational Agencies, Part A, Cluster
84.027, 84.173, S-84.392	Special Education Cluster
84.367	Improving Teacher Quality State Grants
S-84.395	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
93.558	Temporary Assistance For Needy Families Cluster
93.568	Low-Income Home Energy Assistance Program
Unmodified	
10.551, 10.561	Supplemental Nutrition Assistance Program Cluster
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
17.225,	Unemployment Insurance

Type of Opinion	Program Name
S-17.225	
20.205, S-20.205, 20.219	Highway Planning and Construction Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster
84.126	Vocational Rehabilitation Cluster
93.069	Public Health Emergency Preparedness
93.268	Immunization Cluster
93.563	Child Support Enforcement
93.575, 93.596	Child Care Cluster
93.767	Children's Health Insurance Program
93.775, 93.777, 93.778	Medicaid Cluster
96.001	Disability Insurance/SSI Cluster

(h) Any audit findings disclosed that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes.**

(i) Identification of Major Programs:

CFDA Number	Federal Award Number	Program Name
10.551, 10.561	11081DE451E2518 11111DE458Q3903 11DE401S2522 12121DE401E2518 12121DE401S2519 12121DE401S2520 12121DE401S2522 12121DE401S8026 12121DE401S8036 12121DE411S8204 1212DE401S2514 1313DE401E2518	Supplemental Nutrition Assistance Program Cluster

CFDA Number	Federal Award Number	Program Name
	1313DE401IS7503	
	1313DE401S2514	
	1313DE401S2519	
	1313DE401S2520	
	1313DE401S2522	
	1313DE401S8026	
	1313DE401S8036	
	2010ID250341	
	2010IE251841	
	2010IQ270341	
	2010IS251441	
	2010IS251941	
	2010IS252041	
	2010IS252241	
	2010IS803641	
	2011IS251441	
	2011IS251941	
	2011IS252041	
	2011IS802641	
	2011IS803641	
10.553, 10.555, 10.556, 10.559	12108DE000L4003	Child Nutrition Cluster
	1DE300301	
	2011IN109941	
	2012IN109941	
	2013IN109941	
	FY10L4003FY13	

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2013

CFDA Number	Federal Award Number	Program Name
10.557	11111DE701W1003 11111DE701W1006 1313DE701WS003 2009IW500341 2010IW500341 2011IW500341 2012IW100641 2012IW500341 2013IW100341 2013IW100641 13131DE701W1003 13131DE701W1006 2014IW100341 IDE720701W	Special Supplemental Nutrition Program for Women, Infants & Children
10.558	1DE300301 2012IN109941 2012IN202041 2013IN105041 2013IN202041	Child and Adult Care Food Program
17.225, S-17.225	ES-22055-11-55-A ES-22987-12-55-A-10 UI10446530955A10 UI-16738-08-55-A-10 UI180120955A10 UI180129M0 UI195741055A10 UI21091EW-UI21091DV UI22267JH UI-23884-13-55-A-0 UI-22267-12-55-A-0	Unemployment Insurance
17.258, 17.259, 17.260, 17.278	2-115-Y 2-117-Y 2-119-STYY 2-120-STYY 3-122-Y 3-124-Y 3126STYY 3-146-STSY	Workforce Investment Act Cluster

CFDA Number	Federal Award Number	Program Name
	3262STSY AA160200755A10 AA171130855A10 AA-18631-09-55-A-10 AA186316XO AA186316ZO AA-20186-10-55-A-10 AA-21387-11-55-A-10 AA-22927-12-55-A-10 EM192980960A10 EM-20482-10-60-A-10 EM-21137-11-60-A-10 LM 1007	
20.205, S-20.205, 20.219	TRANSPORTATION ENHANCEMENT HEV-DE	Highway Planning and Construction Cluster
20.500, 20.507, S-20.507	DE-03-0016 DE-04-X002 DE-90-X028 DE-90-X030 DE-90-X031 DE-90-X032 DE-90-X033 DE-96-X001 DE-03-0028-00 DE-05-0014-00 DE-05-0015-00 DE-90-X034	Federal Transit Cluster
66.458	2W-10000209-0 CS-10000107-0 CS-10000108-0 CS-10000110-0 CS-10000111-0 CS-10000112-0	Capital Grants for Clean Water State Revolving Fund
66.468,	99391412 2F-093914-09-0 FS-993914050 FS-993914050-DA FS-99391406 FS-99391407-0	Capitalization Grants for Drinking Water State Revolving Funds

CFDA Number	Federal Award Number	Program Name
	FS993914080	
	FS-99391408-0	
	FS-993914-08-0	
	FS-99391409-0	
	FS-993914-09-0	
	FS99391410	
	FS99391411	
	WP-97360401-0	
84.007, 84.033, 84.063, 84.268	AcadComp11TY40753	Student Financial Assistance Cluster
	DIRLEND11OW	
	DIRLEND11ST	
	DIRLEND11TY	
	DIRLEND12OW40340	
	DIRLEND12ST40340	
	DIRLEND12TY40340	
	FWSP11OW1812	
	FWSP11ST1815	
	FWSP11TY1816	
	P007A090812	
	P007A090814	
	P007A090815	
	P007A110812	
	P007A110814	
	P007A110815	
	P007A120812	
	P007A120814	
	P007A120815	
	P033A090812	
	P033A090814	
	P033A110812	
	P033A110814	
	P033A110815	
	P033A120812	
	P033A120814	
	P033A120815	
	P033P090815	

CFDA Number	Federal Award Number	Program Name
	P063P093468	
	P063P093817	
	P063P122885	
	P063P123468	
	P063P123817	
	P268K132885	
	P268K133468	
	P268K133817	
	P375A092885	
	P375A093468	
	P375A102885	
	P375A103817	
	PELL11OW1802	
	PELL11ST1805	
	PELL11TY1806	
	PELL12OW41009	
	PELL12ST41009	
	PELL12TY41009	
	PO63P092885	
	SEOG11OW1822	
	SEOG11ST1825	
	SEOG11TY1826	
84.010, S-84.389	H173A080025	Title I Grants to Local Educational Agencies
	S010A070008	
	S010A080008	
	S010A090008	
	S010A100008A	
	S010A110008	
	S010A120008	
	S389A090008	
	S394A090053	
	SFSF49-09	
84.027, 84.173, S-84.392	H027A070022	Special Education Cluster (IDEA)
	H027A080022	
	H027A090022	
	H027A100022A	

CFDA Number	Federal Award Number	Program Name
	H027A120022	
	H027A110022	
	H027AO80022	
	H173A070025	
	H173A080025	
	H173A090025	
	H173A100025	
	H173A110025	
	H173A120025	
	H391A090022	
	H392A090025	
84.126	H126A090009	Vocational Rehabilitation Cluster
	H126A090010	
	H126A100009	
	H126A100011	
	H126A110009	
	H126A110010	
	H126A120009	
	H126A120010	
	H126A130010	
	H390A090009	
	H390A090010	
	H126A13009	
84.367	S367A080007	Improving Teacher Quality State Grants
	S367A090007	
	S367A100007A	
	S367A110007	
	S367B070008A	
	S367120007	
	S367B080008	
	S367B090008A	
	S367B100008	
	S367B110008	
	S367B120008	

CFDA Number	Federal Award Number	Program Name
S-84.395	S395A100007	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
93.069	2U90TP316980-11 1U90TP000518-01 5U90TP000518-02	Public Health Emergency Preparedness
93.268	IH231P000740-01 5H231P322567-08 OCCH322567 3H23IP322567-07SI	Immunization Cluster
93.558, S-93.714	0901DETAN2 1102DETANF 1202DETANF 1302DETANF 2013-G991524-4115 G-0802DETANF G-0902DETANF G1001DETAN2 G1002DETANF	Temporary Assistance for Needy Families Cluster
93.563	0904DE4004 1004DE4004 1004DE4002 1104DE4004 1204DE4005 1304DE4005	Child Support Enforcement
93.568	G-09B1DELIEA G-10B1DELIEA G-11B1DELIEA 1001DELIE2 G12B1DELIEA G13B1DELIEA	Low-Income Home Energy Assistance Program
93.575, 93.596	07072507A 0801DECCDF 1001DECCDF 1101DECCDF 1201DECCDF	Child Care Cluster

CFDA Number	Federal Award Number	Program Name
	1301DECCDF 2009G9966005 G-0801DECCDF G-0901DECCDF G1001DECCDF G1301DECCDF	
93.767	05-0805DE5021 05-0905DE5021 1005DE5021 1105DE5021 1205DE5021 05-1305DE5021	State Children's Health Insurance Program
93.775, 93.777, 93.778	01-1001-DE-5050 01-1101-DE-5050 05-01005DEARRA 05-1005-DE-5001 05-1005-DE-5002 05-1005DE5028 05-1005DE5048 05-1005-DE-5ASC 05-1101DE5ADM 05-1205-DE-5002 05-1205DE5ADM 05-1205DE5MAP 05-1305DEIMPL 05-1305DEINCT 09INC-FMAP 1005DE5000 1005DE5MAP 1105DE5000 1105DE5001 1105DE5002 1105DE5MAP 1105DEARRA 1105DEEXTN 1201-DE-5050 1205DE5000 1205DE5001	Medicaid Cluster

CFDA Number	Federal Award Number	Program Name
	1205DEIMPL	
	1205DEINCT	
	1301DE5050	
	1305DE5000	
	1305DE5001	
	1305DE5002-0275G	
	XIX-ADM13	
	XIX-MAP13	
96.001	04-12-04DED100	Disability Insurance/ SSI Cluster

(j) Dollar threshold used to distinguish between Type A and Type B programs: **$6,498,358.**

(k) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No.**

(2) Findings Related to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards:*

Two findings related to the basic financial statements for the year ended June 30, 2013 were reported in accordance with *Government Auditing Standards* by KPMG LLP. See ***Section 2*** of the Schedule of Findings and Questioned Costs for item **2013-FS-001**.

(3) Findings Related to Federal Awards*:*

See ***Section 3*** of the Schedule of Findings and Questioned Costs.

SCHEDULE OF FINDINGS & QUESTIONED COSTS

Section 2: Financial Statement Findings

2013-FS-001. LACK OF CONTROLS OVER THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) PREPARATION (MATERIAL WEAKNESS)

Background

The State's Division of Accounting (DOA) is responsible for the compilation of the State-wide financial statements in accordance with generally accepted accounting principles (GAAP). Throughout the year, the State operates and records transactions on the cash and budget basis of accounting using First State Financials (FSF[1]), the State's accounting system. The cash basis of accounting differs significantly from the modified accrual basis and the accrual basis of accounting, which are the State's bases for reporting information included in the Comprehensive Annual Financial Report (CAFR) in accordance with GAAP.

Since FSF is not used throughout the year to capture transactions on the modified accrual basis or the accrual basis of accounting, the year-end compilation of the State-wide financial statements is extremely complex and heavily reliant on manual adjustments to properly record accruals and other non-routine transactions. State agencies on FSF are required to prepare GAAP Packages to make various types of adjustments to correct the non-GAAP basis of accounting throughout the year. DOA provides training and instructions to State personnel on the GAAP Package preparation and sets timelines for GAAP package submission to DOA. In addition, there are some State agencies that use systems outside of FSF to gather and track required information, this adds to the complexity of the year-end GAAP Package reporting and reconciliation process.

Condition

We continue to identify significant adjustments in GAAP packages due to incomplete information provided or the management review at DOA and the agencies are not performed at a sufficient level of precision to identify significant misstatements. This, combined with the many sources of information and the extent of modification necessary to such information, results in a financial reporting process that continues to be highly complex and manual in nature, and therefore, susceptible to errors and delays.

During our audit, we identified the following deficiencies in internal control over financial reporting:

- Understatement of capital projects fund accounts payable accrual in the amount of $2 million.

  The services incurred were not properly pro-rated between fiscal years, resulting in the understatement.

- Understatement of tax refund claims that required an additional $40 million in liability accrual.

  DOA did not prepare legal contingencies and, through our legal inquiries with DOA's Deputy Attorney General on a matter previously reported in the notes to the financial statements, we were notified of a significant change in the outlook of certain tax refund claims that required an additional accrual.

- Overstatement of federal grant receivable in the amount of $4.5 million.

  The Department of Health and Social Services (DHSS) grant receivables GAAP package erroneously included receivables related to one grant that had been fully expended and drawn down in fiscal year 2012. This resulted in the grant receivable balance being overstated by $4.5 million, since DHSS was unable to determine the grant project that received the misapplied cash receipt.

[1] PeopleSoft

- Overstatement of federal grant receivable in the amount $12.3 million.

  The Department of Education's (DOE) GAAP package for grants receivables erroneously included receivables related to two grants that had been fully expended and drawn down in fiscal year 2012. This resulted in the grant receivable balance being overstated by $12.3 million, since DOE was unable to determine the grant projects that received the misapplied cash receipts.

- Overstatement of federal grant receivable in the amount of $108 thousand.

  DOE misapplied cash receipts resulting in the overstatement.

- Understatement of federal grant receivable in the amount of $2.1 million.

  DOE misapplied cash receipts resulting in the understatement.

- Understatement of a general fund receivable in the amount of $3.6 million.

  During our review of the completeness and accuracy of the State's accounts receivable, we determined that the Division of Developmental Disabilities Service (DDDS) did not submit its receivable GAAP package for inclusion in the financial statements resulting in total accounts receivable for the general fund and governmental activities to be understated by $3.6 million.

- Overstatement of receivables resulting from an understatement of allowance for doubtful accounts in the amount of $8.3 million.

  The Division of Unemployment Insurance (UI) calculates its allowance for doubtful accounts on benefit recoupment receivables by multiplying the percentage of all overpayments uncollected over the most recent four year period to the gross outstanding recoupment receivable balance. The spreadsheet used in UI's GAAP package to support the allowance for doubtful accounts contained formula errors in the computation of the percentage of overpayments uncollected and there was nearly $11 million in gross benefit recoupment receivables improperly excluded from the allowance calculation. This resulted in an audit adjustment to increase the allowance for doubtful accounts on benefit recoupment receivables by $8.3 million.

- Overstatement of loans and notes receivable resulting from an understatement of allowance for doubtful accounts in the amount of $12.3 million.

  During our examination of the Department of Economic Development Office (DEDO) loans and notes receivables GAAP package, the amount for the allowance for doubtful accounts was miscalculated and understated by $12.3 million.

- Overstatement of federal fund balance and understatement of general fund balance of $32.9 million.

  We also determined that $32.9 million of the $35.5 million receivable balance was incorrectly coded to the federal fund instead of the general fund.

- Overstatement of local school districts revenue in the amount of $997 thousand.

  During our testing of revenue transactions, we identified an overstatement of revenue resulting from interfund transfers erroneously recorded as revenue. The FSF system does not provide a method for recording these as non-revenue transactions. The $997 thousand related to 47 transactions across the Brandywine, Sussex Tech, Woodbridge, Capital, New Castle County Votech, Seaford and Christina

school districts. The districts recorded 4 of these transactions in accordance with DOA instruction provided in Memorandum 12-08 dated October 11, 2011.

- Overstatement of local school district revenue and understatement of federal revenue in the amount of $2.6 million.

  There was a misclassification of federal revenue and its related expenditures for funds directly reimbursed to the local school districts from federal agencies. This misclassification related to 43 transactions for the Cape Henlopen, Sussex Tech, Woodbridge, Appoquinimink, Caesar Rodney, and Lake Forest school districts. The districts recorded 20 of these transactions in accordance with DOA instruction provided in Memorandum 12-08 dated October 11, 2011.

- Untimely analysis of the new accounting pronouncement - Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*

  The DOA was charged with the responsibility of implementing GASB No. 61 and was not prepared to address the results of its conclusions until after the close of the fiscal year end. A form checklist for each GASB No. 61 entity assessment was used by DOA by marking "Yes" or "No" to various criteria questions with little to no explanation provided to initially document the rationale supporting its answers in the entity determination assessments. In addition, the DOA did not maintain adequate documentation from either the Delaware State Code, legal determinations (if necessary), or other supporting information utilized to answer most of the criteria questions in the form checklist. As such, the entity determination process relied on the audit process to identify incorrect or incomplete reporting entity determination assessments. Specifically, as a result of our examination, we identified the following in DOA's initial conclusions:

  - The Delaware Agricultural Lands Preservation Foundation (DALPF) was improperly assessed as a blended component unit within the general fund instead of a discretely presented component unit. An adjustment was made by DOA to correctly report DALPF as a discretely presented component unit in its financial statements.

  - The Delaware Technical Community College (DTCC) Educational Foundation is properly assessed as a discretely presented component unit; however it has been excluded from the State's financial statements due to its small size in relation to the other discretely presented component units. This is considered a new non-GAAP policy for the State and will need to be monitored on an annual basis.

  - The Delaware Economic Development Authority (DEDA) is properly assessed as a blended component unit within the general fund; however the documentation initially provided was inadequate to support this assessment. The audit process of the State's GASB No. 61 analysis related to DEDA required many additional meetings with management and its legal council to support DEDA's entity determination.

  - The State's 16 local school districts and 3 vo-tech schools (collectively referred to as the local school districts) are properly assessed as being part of the primary government. Although the local school districts have separate boards, an assessment of the local school districts was not included in DOA's initial GASB No. 61 assessment. Upon our request, an assessment was ultimately performed; however, this assessment was initially insufficient to support the

assessment that the local schools were properly classified as being part of the primary government. The audit process of the State's GASB No. 61 analysis related to the local school districts required numerous additional meetings with DOA and its legal council to support the local school district's entity determination and required multiple meetings and discussions with DOA on the importance of having a clear and thorough analysis on why the local school districts are part of the primary government.

- Weaknesses continue to exist in the process for managing the preparation of the CAFR.

  The process used to prepare the CAFR should include sufficient and timely management review to correct errors and ensure CAFR accuracy prior to submission for audit. For example, since only edited pages in the Word and Excel files are converted to the PDF CAFR document rather than the entire Word and Excel files, tables were duplicated and sentences or paragraphs were cut off or missing in the CAFR drafts provided during the audit.

Criteria

According to the National Council on Government Accounting (NCGA) Concept Statement No. 1, *Objectives of Financial Reporting,* "The overall goal of accounting and financial reporting for governmental units is to provide: 1) financial information useful for making economic, political and social decisions, and demonstrating accountability and stewardship; and 2) information useful for evaluating managerial and organizational performance."

In order to ensure such information is useful in decision-making and evaluating managerial and organizational performance, as well as demonstrating accountability and stewardship, controls must be properly designed, in place, and operating effectively to ensure that the State's accounting and financial information is fairly stated in accordance with GAAP and that the State's assets are appropriately safe-guarded.

Cause

First State Financials

Although FSF has the ability and the flexibility to accommodate both modified and full accrual accounting, the system was implemented to manage the State's operations, which are budgeted and managed on a cash basis. Specifically, the State is not fully utilizing the functionality available to accommodate either modified or full accrual accounting. As a result, the reports generated from FSF require significant manual manipulation through the use of spreadsheets to develop the trial balances and related financial statements and to provide the detail necessary for auditing.

Personnel Assigned & Managerial Review

All staff working on various aspects of the CAFR and GAAP reporting process should have sufficient technical expertise to perform the work accurately and timely. Management relies heavily on the audit process to identify and propose corrections to errors in the financial statements and to help guide the implementation of new accounting standards.

Accounting Policies

Local school districts were instructed by DOA to record cash receipts using various revenue codes within the FSF system. This policy does not take into consideration the nature of the cash receipt (i.e. revenue vs.

reduction of expenditures). Additionally, the FSF has limitations on what accounts are available to record transactions and does not permit accurate accounting.

Non-GAAP Policies

The misstatements related to investments and DTCC were caused by the State's non-GAAP policies to net investment related receivables and payable against the investment balance reported on the face of the financial statements and to not report immaterial discretely presented component units, respectively.

Effect

Due to the weaknesses in the processes used to compile financial statement information and the reliance on the audit process to detect and correct such errors, material misstatements to the financial statements could go undetected.

Recommendation

We recommend that management refine the process used to complete the draft State-wide financial statements, notes to the financial statements, all significant adjustments, conversion to accrual adjustments, and prepare necessary account reconciliations. This process should consist of fully utilizing FSF to record transactions on the modified and/or full accrual accounting. The review process should also include an evaluation of the reasonableness of individual financial statement line items and their related footnote disclosures by an individual with sufficient accounting and financial reporting experience and knowledge of the processes at each agency to detect and correct material inconsistencies and errors. Focus should be placed on achieving proper accounting period cut-off and the valuation of accounts associated with the GAAP package process and financial statement preparation. The State also needs to improve its process for applying federal cash receipts to its various grant projects and enhance its grant cut-off procedures and monitoring of grant receivables timely.

We encourage the State to continue to monitor the agency accountants and expand the knowledge base of personnel who have a working knowledge of GAAP. This monitoring and management review process is critical to the successful oversight of the GAAP package process and financial reporting processes in the outside departments and agencies that report to the DOA for year-end financial reporting.

We recommend that controls be implemented to monitor all grant projects, including closed grants, on a monthly basis to determine whether cash was either misapplied or a valid receivable exists.

We also continue to recommend that, if the State continues to rely on the manual GAAP package preparation process to derive financial statement amounts, that this process be a priority for all entities/agencies included in the State's financial reporting entity.

We recommend that separate revenue accounts be established in FSF for agencies and departments to appropriately record reimbursement transactions to during the year.

We also recommend that the DOA maintains sufficient and reliable documentation of its assessments made during the implementation of new accounting standards.

Lastly, we recommend that the DOA continue to improve its management-level review process for the completeness and accuracy of the CAFR document.

Views of Responsible Officials

As the State moves into its fourth year with the First State Financials (FSF), we continue to review the ability for more automation with our financial reporting processes.

This year great strides were taken as this was the first year that the basic financial statements were produced directly from FSF. We were able to remove the manual effort of manipulating data from reports and uploading into another system to derive the basic financial statements for the CAFR. The ability to prepare the statements directly from the system also provided better transparency by being able to drill down into the accounting system to review detailed transactions.

Management has and will continue to explore more efficient and effective ways to utilize FSF in support of the GAAP package process. However, Delaware's GAAP process has been compared to other states through management's inquiries of our State Comptrollers network. We have found that our GAAP process is consistent with many other states throughout the nation; and while we will make changes to our FY2014 grant's receivable process by placing greater reliance on our accounting system, much of the State's GAAP process will continue to be utilized in FY2014 and beyond. Delaware's GAAP process is also needed to record certain balance sheet items, such as tax and loan receivables and other payables, that are kept on separate systems and collected through the GAAP packages. In many cases, separate systems are required by State and Federal regulations. In addition to assessing the logistical implications of utilizing FSF for certain GAAP reporting functions, we also continue to evaluate the costs and benefits associated with any systematic modifications.

The Division of Accounting performs reviews and analytics over information received. However, due to the volume of receipts and time constraints associated with our CAFR submission timeline, such reviews are not necessarily performed to a level of precision that would identify all errors.

We will continue to train the accounting staff at all organizations involved with the GAAP reporting process to ensure that all are filed and prepared properly.

When GASB pronouncements are to be implemented, we work with the auditors to determine their need to review our process of implementation and establish a timeline for doing so. With this year's implementation of GASB 61, we complied with the timeline established and produced management's work papers that supported our assumptions. The GASB did not indicate the proper method for documenting our assumptions and management feels confident in our process for implementing future GASB statements. We will however continue to work with the auditors before implementation to ensure that the delivery and presentation of the information will meet their needs.

For FY2013, our auditors placed a limitation on the number of CAFR draft submissions allowed. DOA was instructed to submit no more than 2 drafts for review. Any modifications made by DOA, audit staff, reviewers, and component units were requested to be included within the one of the two submissions, without exception. This change affected our ability to adequately manage the compilation and review process. In prior years, information was shared between the audit group and the reporting group, allowing for any issues, concerns, revisions to be communicated in a timely manner and immediately reflected in the draft. That said, we acknowledge our deficiencies in report publishing and word processing and have worked hard to identify solutions, such as report publishing tools and independent publishing services. Management is currently working to secure a publishing resource for next year's CAFR.

The CAFR draft is subject to 3 levels of review. All reviewers are CPAs and collectively have more than 38 years of experience in auditing and compiling CAFRs. We believe that our review process is sufficient.

SCHEDULE OF FINDINGS & QUESTIONED COSTS

Section 3: Federal Awards Findings and Questioned Costs

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 3: Federal Awards Findings and Questioned Costs

Year ended June 30, 2013

This section identifies significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, as required to be reported by *Office of Management and Budget Circular A-133,* Section .510(a). This section is organized by state agency.

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Reference Number:	2013-001
Related Prior Year Finding:	N/A
State Department Name:	Department of Education
School Name:	Delaware Technical Community College
Federal Agency:	U.S. Department of Education
Federal Program:	Student Financial Assistance Cluster
CFDA Number:	84.007, 84.033, 84.063, 84.268
ARRA:	No
Compliance Requirement:	Eligibility/IT
Control Finding:	Yes
Compliance Finding:	No
Scope Limitation:	No

Condition:

During our testing, we identified IT general control deficiencies in Delaware Technical Community College's (DTCC) applications, operating systems and databases including the Banner application, Oracle database and the Solaris operating system. DTCC tracks the eligibility of its students within Banner which uses an Oracle database to store the application data. The application and database are housed on a Solaris operating system. The IT deficiencies are as followed:

Password parameters have been established and implemented to meet the Policy requirements.

Exception:

Password requirements for the Oracle database and Solaris system are not configured for history, complexity, or aging requirements. Additionally, Oracle is not configured with minimum length requirements and allows ten invalid log-in attempts.

Administrative Access to the systems is restricted to individuals who require such access to perform job functions.

Exception:

Five of the thirty Oracle accounts with administrative access in the database are shared generic accounts which are used for daily user activity. The shared general accounts do not track the individuals who log into the Oracle system using the generic accounts.

Two of the thirty Oracle accounts have administrative access at both the database and application level. Having access to both levels does not properly segregate duties.

For the Solaris system, there are two generic accounts which have shared passwords. Both of these accounts can be used to switch users to root, which is the Solaris administrator account, and accountability for the user in question cannot be determined.

Procedures exist and are followed to ensure timely action relating to requesting, establishing, issuing, suspending and closing user accounts.

Exception:

There are no formal policies or procedures in place for requesting and approving the creation of or removal of Solaris or Oracle accounts.

Additionally, for three of the twenty-five terminated users reviewed access removal requests were not submitted timely by Human Resources to the IT department to remove access to the Banner application.

One of the twenty-five terminated users reviewed did not have access revoked for Banner and Oracle through the end of the fiscal year.

Criteria:

Control Exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Cause:

The exception for password parameters occurred because there is no formal password policy established at DTCC and the IT department was not aware of the need for stronger passwords to the systems.

The second exception occurred due to some of existing accounts being out dated and not updated in the past several years. Additionally, the IT department is made of a small group of people so generic accounts are utilized when logging in to provide technical support.

The third exception occurred because the IT department did not realize a formal policy was needed for timely action relating to requesting, establishing, issuing, suspending, and closing user accounts. Also, there is a lack of communication between the Human Resource and IT departments for terminated users.

Effect:

The IT general control weaknesses could result in the unauthorized access to the systems. Without adequate IT general controls, the systems utilized for the SFA program could be inappropriately accessed which could allow unauthorized entries into the system without management's knowledge or oversight.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DTCC IT establish a formal password policy, as well as a formal policy for requesting, establishing, issuing, suspending, and closing user accounts. The IT Department also needs to ensure that accounts have separate passwords established and log in using their own unique identifier. Lastly, we recommend that the Human Resource and IT Department have constant communication of terminated employees to ensure IT removes their access to the system.

Views of Responsible Officials:

Agency Contact Name: David Dill, Applications Director

Agency Contact Phone Number: 302-857-1643

Corrective Action Plan:

Exception 1:

1.1 The college IT department has implemented a new system-enforced password policy for Oracle. Passwords must contain a minimum of 8 characters, requiring both letters and numbers with a maximum of 5 invalid login attempts. Oracle passwords are forced to be changed every 180 days. An internal password policy has been created for Solaris shell accounts. The policy requires a minimum of 8 characters with mixed case that include punctuation characters, and for the password to be changed every 180 days with the changes being recorded in the designated log. Delaware Tech is currently in the process of virtualizing the Oracle server which will reside on a Red Hat based operating system. Implementation of system-enforced password aging, complexity and history will be researched for this new platform.

Exception 2:

2.1 The functional unit Oracle accounts are only accessed when required by Banner processes. The college's Oracle database administrator, Simon Morris (Senior Applications Development Specialist) has enabled Oracle user auditing in our development environment (PPRD) to evaluate the impact in our production environment (DTCC). This resulting log provides the login date, time and name of the functional unit account in addition to the Windows username of the originating user.

2.2 Of the two of thirty Oracle accounts with administrative access at both the table and application levels, one account was inadvertently created with the MODIFY role; however, due to other existing security measures, the account was incapable of using that role. The account has been assigned the standard SELECT role.

2.3 The two Solaris system "generic" accounts (1-Oracle and 1-Banner) in question have different passwords in accordance with the internal password policy defined in 1.1. Accountability is tracked through activity in the designated log (/var/adm/sulog). The originating user can be tracked back by correlating the IP of the person logged into the account at the time to the specific workstation, which is also supported through our Windows login audit records. The primary/sole administrator role is filled by Bob Rahe, Applications Engineer, with Simon Morris as the only backup.

Exception 3:

3.1 Personal Solaris accounts are not created, except for the Solaris administrator, Bob Rahe. The Banner Access Request form is the college's policy-enforced method of requesting and approving the creation and removal of Oracle accounts since 2004.

3.2

a. The college's IT department has facilitated the exchange of a monthly report from Human Resources that identifies terminated employees from PHRST (PER-015). This report is reviewed monthly as an auditing tool to verify all inactivation requests have been received from Human Resources and processed in Banner.

b. A PHRST report of all active employees college-wide is generated and reviewed quarterly for user account correlation. This process began in July 2013.

c. An internal audit of INB (Interactive Native Banner) user access is conducted by the functional area users (Student Module, Accounts Receivable, Admissions and Financial Aid) every May and November. This process began in 2009.

3.3 For the one of twenty-five sampled terminated users, the Banner Access Request form was not received by the college's IT department. Once identified and verified by the campus, this user's account access was revoked. The corrective actions taken in 3.2 apply to this exception.

Anticipated Completion Date:

1.1: Oracle Password Policy: November 7, 2013.
Solaris Password Policy: February 28, 2014.
2.1: May 15, 2014.
2.2: November 7, 2013.
2.3: February 28, 2014.
3.1: [Restricted Access Enforced Since 2004]
3.2: November 6, 2013.
3.3: November 7, 2013.

Reference Number:	2013-002
Related Prior Year Finding:	12-2
State Department Name:	Department of Education
School District Name (if applicable):	Appoquinimink, Brandywine, Caesar Rodney, Capital, Indian River, Lake Forest, Laurel, Milford, Red Clay, Seaford, and Woodbridge
Federal Agency:	U.S. Department of Education
Federal Program:	Title I Grants to Local Educational Agencies, Improving Teacher Quality, Special Education Cluster, State Fiscal Stabilization Fund, Race-to-the-Top Incentive Grants, Recovery Act
CFDA Number:	84.010, S-84.389, 84.027, 84.173, S-84.392, 84.367, S-84.395
ARRA:	Yes
Compliance Requirement:	Allowability (effort reporting)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Title I

During our testing of a sample of sixty-five payroll expenditures totaling $125,522, we found the following:

- One employee totaling $3,247 charged to the program at the Red Clay School District was missing a time and effort report.
- Charges of $12,779 to the program for six employees at the Brandywine, Capital, Indian River, Lake Forest, and Laurel School Districts did not agree to the percentages approved on their time and effort reports by a net difference of $2,937 (overcharged).
- Two employees charging a total of $2,691 to the program at the Milford School District had semi-annual certifications that were not signed or that were signed prior to the end of the period being charged.
- Four employees totaling $9,680 to the program at the Brandywine School District were allocated 100% to the program, but completed a monthly time and effort which did not indicate the time period actually being charged.
- Two employees' time and effort reports totaling $6,509 to the program at the Lake Forest and Laurel School District did not have 100% of their time allocated.
- Two employees' time and effort reports totaling $3,104 to the program at the Woodbridge School District were signed over three months after the period charged.
- Thirty-one of the time and effort reports reviewed were not dated.

Payroll expenditures totaled $28,380,281 and program expenditures were $39,103,999.

A summary of the above exceptions by school district are summarized below.

Type of Finding			
Missing Time & Effort Report	***# of Exceptions***	***Dollar Amount of Exceptions***	
Red Clay Consolidated School District	1	$3,247	
Salary Does Not Agree to Approved Percentages	***# of Exceptions***	***Dollar Amount of Sampled Item***	***Exception Difference***
Brandywine School District	1	$1,154	($616)
Capital School District	2	$3,369	$81
Indian River School District	1	$1,747	$874
Lake Forest School District	1	$3,667	$11
Laurel School District	1	$2,842	$2,587
	6	$12,779	$2,937
Semi-Annual Certification Unsigned or Signed Before End of Period Being Charged	***# of Exceptions***	***Dollar Amount of Exceptions***	
Milford School District	2	$2,691	
Time & Effort Did Not Indicate The Time Period Charged for Employees Allocated 100%	***# of Exceptions***	***Dollar Amount of Exceptions***	
Brandywine School District	*4*	$9,680	
Time & Effort Did Not Have 100% of Employees' Time Allocated	***# of Exceptions***	***Dollar Amount of Exceptions***	
Lake Forest School District	1	$3,667	
Laurel School District	1	$2,842	
	2	$6,509	
Time & Effort Signed Over 3 Months After the Period Charged	***# of Exceptions***	***Dollar Amount of Exceptions***	
Woodbridge School District	2	$3,104	

Improving Teacher Quality

During our testing of a sample of sixty-five payroll expenditures totaling $134,317, we found the following:

- Four employees totaling $6,760 charged to the program at the Brandywine, Laurel, and Woodbridge School Districts were missing time and effort reports.

- Charges of $11,611 to the program for five employees at the Red Clay, Christina, and Seaford school districts did not agree to the percentages approved on their time and effort reports by a net difference of $4,037 (overcharge).
- Three employees charging a total of $7,277 to the program at the Capital School District had semi-annual certifications that were not signed or that were signed prior to the end of the period being charged.
- Six employees totaling $12,983 charged to the program at the Brandywine School District were allocated 100% to the program, but did not complete a time and effort certification on a semi-annual basis.
- Twenty-seven of the time and effort reports reviewed were not dated

Payroll expenditures totaled $8,955,434 and program expenditures were $11,340,478.

A summary of the above exceptions by school district are summarized below.

Type of Finding			
Missing Time & Effort Report	***# of Exceptions***	***Dollar Amount of Exceptions***	
Brandywine School District	1	$1,167	
Laurel School District	1	$2,105	
Woodbridge School District	2	$3,488	
	4	$6,760	
Salary Does Not Agree to Approved Percentages	***# of Exceptions***	***Dollar Amount of Sampled Item***	***Exception Difference***
Red Clay Consolidated School District	3	$8,129	$555
Christina School District	1	$714	$714
Seaford School District	1	$2,768	$2,768
	5	$11,611	$4,037
Semi-Annual Certification Unsigned or Signed Before End of Period Being Charged	***# of Exceptions***	***Dollar Amount of Exceptions***	
Capital School District	3	$7,277	
Time & Effort Certification Not Completed on a Semi-Annual Basis for Employees Allocated 100%	***# of Exceptions***	***Dollar Amount of Exceptions***	
Brandywine School District	6	$12,983	

Special Education Cluster

During our testing of a sample of sixty-five payroll expenditures totaling $121,499, we found the following:

- Nine employees totaling $16,665 charged to the program at the Brandywine, Caesar Rodney, and Indian River School Districts were missing a time and effort reports.
- Charges of $5,843 to the program for two employees at the Appoquinimink and Laurel School Districts did not agree to the percentages approved on their time and effort reports by a net difference of $2,299 (undercharge).
- Four employees' time and effort reports totaling $8,308 charged to the program at the Caesar Rodney, Laurel, Red Clay, and Seaford School Districts did not have 100% of their time allocated.
- One employee's time and effort report totaling $1,284 charged to the program was signed over three months from the period charged.
- Twenty-four of the time and effort reports reviewed were not dated.

Payroll expenditures totaled $22,945,041 and program expenditures were $34,129,025.

A summary of the above exceptions by school district are summarized below.

Type of Finding			
Missing Time & Effort Report	***# of Exceptions***	***Dollar Amount of Exceptions***	
Brandywine School District	6	$10,977	
Caesar Rodney School District	1	$954	
Indian River School District	2	$4,734	
	9	$16,665	
Salary Does Not Agree to Approved Percentages	***# of Exceptions***	***Dollar Amount of Sampled Item***	***Exception Difference***
Appoquinimink School District	1	$2,427	($2,572)
Laurel School District	1	$3,416	$273
	2	$5,843	($2,299)
Time & Effort Did Not Have 100% of Employees' Time Allocated	***# of Exceptions***	***Dollar Amount of Exceptions***	
Caesar Rodney School District	1	665	
Laurel School District	1	$3,417	

Red Clay Consolidated School District	1	$1,152
Seaford School District	1	$3,074
	4	$8,308
Time & Effort Signed Over 3 Months After the Period Charged	***# of Exceptions***	***Dollar Amount of Exceptions***
Brandywine School District	1	$1,284

State Fiscal Stabilization Fund, Race-to-the -Top

During our testing of a sample of sixty-five payroll expenditures totaling $156,522, we found the following:

- Two employees totaling $4,041 charged to the program at the Woodbridge School District were missing time and effort reports.
- Charges of $2,866 to the program at the Laurel School District did not agree to the percentages approved on their time and effort reports by a net difference of $2,077 (undercharge).
- Six employees charging a total of $10,505 to the program at the Capital and Red Clay School Districts had semi-annual certifications that were not signed or that were signed prior to the end of the period being charged.
- Five employees totaling $19,098 to the program at the Brandywine School District were allocated 100% to the program, but did not complete a time and effort certification on a semi-annual basis.
- Nineteen of the time and effort reports reviewed were not dated.

Payroll expenditures totaled $12,556,829 and program expenditures were $31,417,461.

A summary of the above exceptions by school district are summarized below.

Type of Finding			
Missing Time & Effort Report	***# of Exceptions***	***Dollar Amount of Exceptions***	
Woodbridge School District	2	$4,041	
Salary Does Not Agree to Approved Percentages	***# of Exceptions***	***Dollar Amount of Sampled Item***	***Exception Difference***
Laurel School District	2	$2,866	($2,077)
Semi-Annual Certification Unsigned or Signed Before End of Period Being Charged	***# of Exceptions***	***Dollar Amount of Exceptions***	
Capital School District	3	$5,977	

Red Clay Consolidated School District	3	$4,528
	6	$10,505
Time & Effort Certification Not Completed on a Semi-Annual Basis for Employees Allocated 100%	***# of Exceptions***	***Dollar Amount of Exceptions***
Brandywine School District	5	$19,098

A summary of the major programs with payroll control and compliance exceptions are summarized below.

Title I Program

	# of Items	***Dollar Amount of Items***
Total Payroll Expenditures	39,654	$28,380,281
Total Program Expenditures	47,522	39,103,999
Payroll Sample	65	125,522
Payroll Control Exceptions	14	20,504
Payroll Compliance Exception	14	20,504

Improving Teacher Quality Program

	# of Items	***Dollar Amount of Items***
Total Payroll Expenditures	18,899	$8,955,434
Total Program Expenditures	20,327	11,340,478
Payroll Sample	65	134,317
Payroll Control Exceptions	18	31,057
Payroll Compliance Exception	18	31,057

Special Education Cluster

	# of Items	***Dollar Amount of Items***
Total Payroll Expenditures	48,979	$22,945,041
Total Program Expenditures	56,516	34,129,025
Payroll Sample	65	121,499
Payroll Control Exceptions	15	25,139
Payroll Compliance Exception	15	25,139

State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants

	# of Items	***Dollar Amount of Items***
Total Payroll Expenditures	25,485	$12,556,829
Total Program Expenditures	29,551	31,417,461
Payroll Sample	65	156,522
Payroll Control Exceptions	15	35,721
Payroll Compliance Exception	15	35,721

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled.
  (OMB Circular A-87, Attachment B.8.h.6)

Cause:

The State Department of Education and the school districts cited above did not maintain proper and timely effort reporting for employees funded by federal programs.

Effect:

Salary and related costs allocated to the federal programs are not appropriately supported by semi-annual certifications or properly prepared time and effort reports.

Questioned Costs:

Missing Time & Effort Report	***# of Exceptions***	***Dollar Amount of Exceptions***	
Title I Program	1	$3,247	
Improving Teacher Quality Program	4	$6,760	
Special Education Cluster	9	$16,665	
State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants	2	$2,041	
Salary Does Not Agree to Approved Percentages	***# of Exceptions***	***Dollar Amount of Sampled Item***	***Exception Difference Over (under) charge***
Title I Program	6	$12,779	$2,937
Improving Teacher Quality Program	5	$11,611	$4,037
Special Education Cluster	2	$5,843	($2,299)
State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants	2	$2,866	($2,077)

Recommendation:

We recommend that the State Department of Education and the above school districts continue to hold training sessions to educate the employees on the importance of effort reports, require management review and sign-off on completeness of the effort reports to insure the State maintains properly prepared and signed personnel activity reports (effort reports) for all employees who work on multiple programs or obtain semi-annual certifications for employees that have been solely engaged in activities supported by one funding source.

Views of Responsible Officials:

Agency Contact Name: Eulinda DiPietro
Agency Contact Phone Number: 302-735-4016

Corrective Action Plan:

1. A copy of the Audit Finding will be shared with fiscal staff at each LEA with finding(s).
2. DE DOE fiscal staff will provide training for LEA fiscal staff on the requirements for time and effort, acceptable formats to use for the certification and how to complete the forms.
3. DE DOE program staff will offer time and effort training opportunities throughout the year for LEA staff.
4. DE DOE program staff will continue to monitor LEAs for time and effort requirements.

Anticipated Completion Date: 12/2014

Reference Number:	2013-003
Related Prior Year Finding:	N/A
State Department Name:	Department of Education
School District Name (if applicable):	Christina School District
Federal Agency:	U.S. Department of Education
Federal Program:	Title I Grants to Local Educational Agencies
CFDA Number:	84.010, S-84.389
ARRA:	Yes
Compliance Requirement:	Allowability (non-payroll)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

In a sample of sixty-five nonpayroll transactions totaling $1,884,222, one transaction for the Christina School District totaling $8,633 was approved, but considered questionable for the Title I program as costs consisted of theater tickets for students to attend a Broadway play. Such costs are not considered necessary and reasonable for the proper and efficient performance of the Title I award. Nonpayroll expenditures for the Program totaled $10,723,718 and total program expenditures totaled $39,103,999.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The objective of the programs is to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families.

In addition, to be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1 & C.2):

a. Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)

b. Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.)

c. Be authorized or not prohibited under State or local laws or regulations.

d. Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

g. Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.

h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.

i. Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.)

j. Be adequately documented.

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:

a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

Cause:

A rationale detailing the academic benefit of the trip was not included in the supporting documentation for the transaction. While the District provide a verbal explanation, we did not consider it reasonable for Title I performance.

Effect:

Costs are being charged to the federal program which are not allowable and could result in the Program having to return grant money to the U.S. Department of Education.

Questioned Costs:

The questioned costs were $8,633.

Recommendation:

The Delaware Department of Education should reinforce to the school districts what costs are allowable under the Title I program and ensure that proper approvals and appropriate supporting documentation is prepared and maintained.

Views of Responsible Officials:

Agency Contact Name: Ted Jarrell
Agency Contact Phone Number: 302-857-3333

Corrective Action Plan:

1. A copy of the Audit Finding will be shared with the Title IIA coordinator at the Christina School District.
2. The criteria for determining allowable costs have been covered during annual Title I fiscal trainings for the last three to four years. DE DOE program staff will continue to cover this topic, including all that is outlined in OMB A-87, during the May 2014 fiscal training webinar. This webinar will be recorded and sent to all LEA Title I coordinators.
3. DE DOE program staff will continue to maintain a summary of the OMB A-87 cost principles on our Title I Website. This document has been distributed at the annual New Title I Coordinator Trainings in the fall and the annual fiscal trainings held in the spring.
4. OMB A-87 Cost principles were discussed and the above summary was distributed at Consolidated Application technical assistance sessions for the 13-14 grants in April of 2013. A copy of this resource will be distributed during the April 2014 trainings.
5. LEA budgets in the consolidated grant are thoroughly reviewed using an extensive checklist. The DE DOE program manager reviews each budgeted item for allowability, reasonableness and necessity. This process will be continued for the 14-15 grants.
6. The 14-15 consolidated grant has been updated to include a "Justification box" for budgeted times. LEAs with questionable costs may be required to complete the justification box prior to receiving approval from program managers. This will help provide more information to determine whether a budgeted item is allowable, reasonable and necessary.
7. DE DOE program staff will continue to monitor selected items from approved budgets vs. actual expenditures during annual Title IA monitoring. This helps ensure that LEAs expend Title I funds only on approved items.

Anticipated Completion Date: 11/2014

Reference Number:	2013-004
Related Prior Year Finding:	N/A
State Department Name:	Department of Education
School District Name (if applicable):	N/A
Federal Agency:	U.S. Department of Education
Federal Program:	Improving Teacher Quality
CFDA Number:	84.367
ARRA:	No
Compliance Requirement:	Reporting: SEFA
Control Finding:	Yes
Compliance Finding:	No
Scope Limitation:	No

Condition:

We found that the initial schedule of expenditures of federal awards had $5,940,544 which was incorrectly recorded as CFDA 84.365 (Title III) instead of CFDA 84.367 (Improving Teacher Quality). The schedule of federal expenditures has been updated to properly reflect total Improving Teacher Quality expenditures. Total nonpayroll expenditures for the Program totaled $2,385,044 and total program expenditures totaled $10,757,610.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Improving Teacher Quality State Grants may be used for a broad span of activities designed to improve teacher quality that are identified in Section 2123(a) of the ESEA. Examples of allowable activities include: (1) providing "professional development" (as the term is defined in Section 9101(34) of the ESEA, 20 USC 6602(34)) to teachers, and, where appropriate, to principals and paraprofessionals in content knowledge and classroom practice; (2) developing and implementing a wide variety of strategies and activities to recruit, hire, and retain highly qualified teachers and principals; (3) developing and implementing initiatives to promote retention of highly qualified teachers and principals; (4) carrying out professional development programs to assist principals and superintendents in becoming outstanding managers and educational leaders; and (5) carrying out teacher advancement initiatives that promote professional growth and emphasize multiple career paths and pay differentiation, and establish programs and activities related to exemplary teachers. LEAs also may use funds to hire teachers to reduce class size (Sections 2101 and 2123(a) of the ESEA (20 USC 6601 and 6623(a))).

In addition, to be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1):

a. Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)

b. Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.)

c. Be authorized or not prohibited under State or local laws or regulations.

d. Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

g. Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.

h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.

i. Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.)

j. Be adequately documented.

Cause:

There was a manual error in the initial set up of some projects by DOE which resulted in the information used to extract CFDA program detail not being properly established in the First State Financial (FSF) system and linked to the correct CFDA number. Consequently, a portion of the program expenditures went to incorrect CFDA numbers within FSF.

Effect:

The State's Schedule of Expenditures of Federal Awards (SEFA) is incorrect and requires adjustment.

Questioned Costs:

There are no questioned costs associated with this finding as the errors relates to incorrect CFDA coding.

Recommendation:

The State's SEFA should be reconciled to grant allocations annually to ensure all program expenditures have been properly reflected on the SEFA.

Views of Responsible Officials:

Agency Contact Name: Eulinda DiPietro
Agency Contact Phone Number: 302-735-4016

Corrective Action Plan:

Every August DE DOE fiscal staff will reconcile grant expenses to the SEFA expenses to ensure all program expenditures are the appropriate CFDA numbers are correlated.

Anticipated Completion Date: 10/2014

Reference Number: 2013-005
Related Prior Year Finding: 12-4
State Department Name: Department of Education
School District Name (if applicable):
Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies, Special Education Cluster, Improving Teacher Quality and State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
CFDA Number: 84.010, S-84.389, 84.027, 84.173, S-84.392, 84.367, S-84.395
ARRA: Yes
Compliance Requirement: Cash Management
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

The Department of Education's (DOE)/program drawdown process includes the following steps:

- executing a query to determine outstanding account receivables
- submitting a request for reimbursement from the applicable federal draw system
- subsequently applying the reimbursement deposit to First State Financials (FSF) against the outstanding account.

Based on a sample of thirty-two drawdowns totaling $65,260,706 for four Programs, four drawdowns totaling $13,504,435 were deposited, however, there was a technical issue and the deposits failed to post and clear the outstanding account receivables balance resulting in the drawdowns being drawn twice. The technical issue was the result of an FSF upgrade in October 2013 that did not properly account for multiple fund distributions which is a unique to the school districts within the DOE. The issue was corrected in November of 2013. There were 71 draws for the four programs totaling $114,815,974.

The tables below represent the scope of items examined and the associated results:

Title I Program

	# of Items	***Dollar Amount of Items***
Program Expenditures		$39,103,999
Draw Population	18	38,063,285
Sample	8	21,679,608
Control Exceptions	1	4,356,823
Compliance Exception	1	4,356,823

Improving Teacher Quality Program

	# of Items	***Dollar Amount of Items***
Program Expenditures		$11,340,478
Draw Population	18	10,672,775
Sample	8	5,144,988

Control Exceptions	1	1,162,213
Compliance Exception	1	1,162,213

Special Education Cluster

	# of Items	***Dollar Amount of Items***
Program Expenditures		$34,129,025
Draw Population	18	34,034,203
Sample	8	19,594,208
Control Exceptions	1	3,843,095
Compliance Exception	1	3,843,095

State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants

	# of Items	***Dollar Amount of Items***
Program Expenditures		$31,417,461
Draw Population	17	32,045,711
Sample	8	18,841,902
Control Exceptions	1	4,142,304
Compliance Exception	1	4,142,304

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 *et seq.),* require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures of Treasury Subpart B of 31 CFR part 205 (Subpart B).

We noted that of the four federal programs identified above, the Improving Teacher Quality State Grants and the State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants are subject to the CMIA. The other two federal programs are required to be in compliance with Subpart B cash draw down procedures.

Cause:

DOE utilized a system query to obtain the required information; however, there was no detail review of the system query so it was not detected that the it included expenditures which related to a previous drawdown request.

Effect:

The State received duplicate drawdowns for expenditures and therefore advance funding for the four programs noted above. When the DOE management was informed of this issue by the FSF staff they reduced subsequent drawdowns to compensate for the duplicate draws. However, the amount of interest earned on the advanced funding would also need to be calculated per the Treasury's current value of funds rate of 1.00% and submitted back to the federal government.

Questioned Costs:

Known interest liability due to the federal government still needs to be determined by DOE management based on the duplicate draw and subsequent reductions in the amount advanced.

Recommendation:

The DOE should confirm that no unapplied cash receipts are in the FSF system prior to completion of a federal draw down. In addition, DOE needs to repay the federal government for the accrued interest on the advanced funding.

Views of Responsible Officials:

Agency Contact Name: Eulinda DiPietro
Agency Contact Phone Number: 302-735-4016

Corrective Action Plan:

A manual process outside of First State Financials will be completed after each draw to cross reference item ids from the previous AR query results and current AR query results to confirm unduplicated data. Since a reimbursable funding technique is used to transfer funds to state agencies for the State's federally sponsored programs, the total amount of expenses that the State floats exceeds funding drawn at any point in time. As such, it is not incumbent upon DE DOE to pay interest within the context of all draws and expenses.

Anticipated Completion Date: Completed as of 12/2013

Reference Number:	2013-006
Related Prior Year Finding:	N/A
State Department Name:	Department of Education
School District Name (if applicable):	Brandywine, Indian River, and Seaford
Federal Agency:	U.S. Department of Education
Federal Program:	Title I Grants to Local Educational Agencies, Improving Teacher Quality
CFDA Number:	84.010, S-84.389, 84.367
ARRA:	Yes
Compliance Requirement:	Procurement and Suspension and Debarment
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Based on our review of the School Districts' procurement procedures for nineteen vendors receiving $1,522,283 of Title I funds during the year, we found that the required bidding practices were not performed for two vendors that received $102,300 during the year expended by the Seaford and Brandywine School Districts

Based on our review of the School Districts' procurement procedures for three vendors receiving $339,797 of Improving Teacher Quality funds, we found that the required bidding practices were not performed for one vendor receiving $29,925 expended by the Indian River School District.

All three vendors were sole source procurements; however, there was no documentation to justify sole sourcing.

Criteria:

Control exceptions:

States, and governmental subrecipients of States, will use the same State policies and procedures used for procurements from non-Federal funds. They also must ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Compliance Exceptions:

Title 29, Chapter 69, Subchapter VI. Professional Services, Subsection 6985 of the Delaware code, sole source procurement state:

a. A contract may be awarded for material or nonprofessional services without competition if the agency head, prior to the procurement, determines in writing that there is only 1 source for the required material or nonprofessional service. Sole source procurement shall not be used unless there is sufficient evidence that there is only 1 source for the required material or service and that no other type of material or service will satisfy the requirements of the agency. The agency shall examine cost or pricing data, which shall include lifecycle costing analysis as specified in §§ 6902 and 6909A(b) of this title if the sole source offers more than 1 type or variety of equipment, prior to an award under this section. Sole source procurement shall be avoided, except when no reasonable alternative sources exist. A written determination by the agency stating the basis for the

sole source procurement shall be included in the agency contract file. Textbooks and related instructional materials are sole source purchases.

b. An agency seeking a sole source procurement shall prepare written documentation citing the existence of a sole source condition. The document shall include the specific efforts made to determine the availability of any other source and an explanation of the procurement need. The agency may, for confirmation, submit this documentation to the Section for review and comment prior to the intended date of award.

c. The agency shall negotiate with the single supplier, to the extent practicable, a contract advantageous to the agency. The agency shall enter into a formal contract stating the terms and conditions of the procurement.

Cause:

The School Districts did not have a protocol to document their rationale for utilizing a sole source procurement including the specific efforts made to determine the availability of any other sources or an explanation of the specificity of the procurement criteria.

Effect:

The School Districts did not comply with State procurement laws as required by Federal regulations.

Questioned Costs:

Questioned costs related to procurements are $102,300 for Title I and $29,925 for ITQ cannot be determined.

Recommendation:

When determining if contracts meet the sole source criteria, the School Districts should adequately document the determination in accordance with Title 29, Chapter 69, Subsection 6925(b). Otherwise, contracts for these services should be subjected to the normal bidding practices.

Views of Responsible Officials:

Agency Contact Name: Ted Jarrell
Agency Contact Phone Number: 302-857-3333

Corrective Action Plan:

1. A copy of the Audit Finding will be shared with the Title IA coordinators in the Seaford and Brandywine School Districts.
2. Procurement procedures will be discussed during the Title IA technical assistance webinar on Title I Fiscal Issues in April 2014.
3. Procurement procedures will be noted in Consolidated Application technical assistance sessions for any expenditure that meets or exceeds the $25,000 threshold for bidding practices.
4. In addition to the general assurance in the Consolidated Application we have had for several years regarding the requirement to comply with all state requirements, a specific assurance has been

added for the 14-15 grant regarding the requirement to comply with the state procurement requirements in Title 29 Chapter 69 of the Delaware Code.

5. Procurement procedures will be added to the Title IA technical assistance website.
6. During annual Title IA monitoring of Budget vs. Expenditures, required documentation of bidding process or sole source documentation will be requested for selected items over $25,000 each.

Anticipated Completion Date: 11/2014

Reference Number:	2013-007
Related Prior Year Finding:	12-7
State Department Name:	Department of Education
School District Name (if applicable):	Brandywine and Indian River
Federal Agency:	U.S. Department of Education
Federal Program:	Improving Teacher Quality; Title I Grants to Local Education Agencies
CFDA Number:	84.367; 84.010, S-84.389
ARRA:	Yes
Compliance Requirement:	Special Test and Provisions (Private Schools and Letters of Intent)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The State Department of Education provides a list of all private schools within a school district attendance area that are required to be sent letters of intent making the school aware of access to possible federal funding. There is no mechanism in place to determine if all State school districts properly sent the required letters for all applicable programs.

Of the forty private schools tested, one private school in the Brandywine School District attendance area was not sent the required letter to solicit Title I participation and two schools in the Indian River District attendance area were not sent the required letter to solicit Improving Teacher Quality participation.

Criteria:

Control exception:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exception:

For programs funded under Title I, Part A (CFDA 84.010), a Local Educational Agency (LEA), after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families. Eligible private school children are those who reside in a participating public school attendance area and have educational needs under section 1115(b) of ESEA.

For all other programs, an SEA, LEA, or any other educational service agency (or consortium of such agencies) receiving financial assistance under an applicable program must provide eligible private school children and their teachers or other educational personnel with equitable services or other benefits under the program. Before an agency or consortium makes any decision that affects the opportunity of eligible private school children, teachers, and other educational personnel to participate, the agency or consortium must engage in timely and meaningful consultation with private school officials. Expenditures for services and benefits to eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the expenditures for participating public school children and their teachers and other educational personnel, taking into account the number and educational needs of the children, teachers

and other educational personnel to be served (Sections 5142 and 9501 of ESEA (20 USC 7217a and 7881); 34 CFR sections 299.6 through 299.9).

Cause:

The Department of Education still has not completely implemented the prior year corrective action plan to ensure that all school district personnel are aware of the federal requirements and the Delaware Department of Education's policy regarding the private schools letters of intent.

Effect:

Brandywine and Indian River school districts are not in compliance with the State of Department of Education's policy or the private school participation requirements of the Program.

Questioned Costs:

There are no questioned costs for this finding.

Recommendation:

The State Department of Education and school district personnel should ensure that the districts fulfill the federal requirements pertaining to the private school's participation of services for all federal programs available to them.

Views of Responsible Officials:

Agency Contact Name: Kim Wells (Title I) and Wendy Modzelewski (Title II)
Agency Contact Phone Number: 302-857-3326 (Wells) and 302-857-3312

Corrective Action Plan:

The DE DOE Title I office monitored all schools districts for invitations to participate during the 12-13 schools year in June 2012. Brandywine School District was found to be in compliance at that time. A checklist was used to compare the invitations Brandywine sent against the private schools that are currently registered with the State of Delaware that fall within Brandywine's boundaries. The DE DOE Title I Office does not maintain this list, but provides it as a courtesy to LEAs annually along with template letters so they are aware of which schools that are registered with the State fall within their boundaries. The LEAs are told that the list is only who is currently registered with the State and it is their responsibility to reach out to any other schools they are aware of that may not be on the registration list. For Title I this includes schools outside of their boundaries that may be serving students who live in their participating school feeders. Maintaining control of this process is an LEA responsibility according to UDSOE. The Title I Office has copies of all of the letters of invitation from the Brandywine School District for the 12-13 school year and can provide them if requested.

Corrective Action Plan for Title I:

1. A copy of the Audit Finding will be shared with the Title IA coordinators in the Brandywine School District.
2. Continue program collaboration with other federal programs to issue template letters and the list of private schools registered with the state to LEAs in December and January.

3. Equitable Services processes will continue to be maintained on the Title IA technical assistance website including template letter of invitation, a building blocks guidance document and other guidance documents.
4. The Consolidated Application has been modified for FY15 such that the LEA must describe how invitations to participate in Title IA were sent to private school officials.

Corrective Action Plan for Title IIA:

1. A copy of the Audit Finding will be shared with the Title IIA coordinators in the Indian River School District.
2. Equitable Services processes were explained to districts during a May 2012 Webinar. This webinar is recorded and posted on DOE's Title II website.
3. Equitable Services processes will be explained during the Title IIA technical assistance provided during the 13-14 school year.
4. Title IIA will continue to coordinate with the Title I Office and other federal programs, as it has done for the past two years, in the distribution of template letters and the list of non-profit private schools to all district program coordinators in the December/January timeframe.
5. Equitable Services processes will continue to be maintained on the Title IIA technical assistance website.
6. The Consolidated Application will be modified for FY15 such that the LEA must describe how invitations to participate in Title IIA were sent to private school officials.

Anticipated Completion Date: 11/2014

Reference Number:	2013-008
Related Prior Year Finding:	N/A
State Department Name:	Department of Education
School District Name (if applicable):	Brandywine
Federal Agency:	U.S. Department of Education
Federal Program:	Improving Teacher Quality; Title I Grants to Local Education Agencies; Special Education Cluster
CFDA Number:	84.367; 84.010, S-84.389; 84.027, 84.173; S-84.392
ARRA:	Yes
Compliance Requirement:	Special Test and Provisions (Schoolwide)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The schools selected for testwork met the required federal threshold to operate under a schoolwide program, but approved schoolwide plans could not be located for three of the five schools requested for the Brandywine School District. Accordingly, it was not possible to determine whether a schoolwide plan was completed and approved and whether the plan included all the necessary components. We reviewed a total of 40 schoolwide plans across eight school districts.

Criteria:

Control exception:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exception:

A school participating under Title I, Part A may, in consultation with its Local Educational Agency (LEA), use its Title I, Part A funds, along with funds provided from other Federal, State, and local education funds, to upgrade the school's entire educational program in a schoolwide program. At least 40 percent of the children enrolled in the school or residing in the school attendance area for the year of the schoolwide program must be from low-income families. The LEA is required to maintain records to demonstrate compliance with this requirement.

a. To operate a schoolwide program, a school must include the following three core elements:
   (1) Comprehensive needs assessment of the entire school (34 CFR section 200.26(a)).
   (2) Comprehensive plan based on data from the needs assessment (34 CFR section 200.26(b)).
   (3) Annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation (34 CFR section 200.26(c)).

b. A schoolwide plan also must include the following components:
   (1) Schoolwide reform strategies (34 CFR section 200.28(a)).
   (2) Instruction by highly qualified professional staff (34 CFR section 200.28(b)).
   (3) Strategies to increase parental involvement (34 CFR section 200.28(c)).
   (4) Additional support to students experiencing difficulty (34 CFR section 200.28(d)).

(5) Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR section 200.28(e)).

Cause:

The Brandywine School District failed to maintain its schoolwide plans for three out of the five elementary schools selected that qualified for schoolwide programs.

Effect:

We could not determine Brandywine School District's compliance with the requirements of implementing a schoolwide program.

Recommendation:

The Brandywine School District should ensure it maintains all schoolwide plans and that the schoolwide plans incorporate all necessary components required by the Federal regulations.

Questioned Costs:

There are no questioned costs associated with this finding.

Views of Responsible Officials:

Agency Contact Name: John Hulse
Agency Contact Phone Number: 302-857-3353

Corrective Action Plan:

1. DE DOE will reinforce with Brandywine School District to maintain appropriate documentation for school wide programs.
2. DE DOE will continue providing guidance, technical assistance and resources on our website.
3. Review of required documentation will continue during routine monitoring.

Anticipated Completion Date: 7/2014

Reference Number: 2013-009
Related Prior Year Finding: 12-9
State Department Name: Department of Education
School District Name (if applicable): Polytech and Seaford
Federal Agency: U.S. Department of Education
Federal Program: Special Education Cluster
CFDA Number: 84.027, 84.173, S-84.392
ARRA: Yes
Compliance Requirement: Level of Effort (Maintenance of Effort)
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: Yes

Condition:

Based on a review of the LEA (school districts) MOE calculations (Excess Cost for IDEA template) included in the 2013 LEA's Consolidated Grant Applications for each of the nineteen school districts, we identified two school districts which had excess costs that decreased from 2010 to 2011. While there was a brief description of the decrease included in the respective Consolidated Grant Application, the actual description was carried forward from the prior year and was not relevant to the 2010 and 2011 comparison. Furthermore, similar to the prior year, the rational and corresponding evidence for the decrease was not substantiated by the DOE to verify whether it was an acceptable allowance. The rationale for excess cost decreases should be substantiated to ensure that these decreases are valid and any required changes to the allocation of Special Education funds can be properly assessed.

The two school districts effort decreased as follows:

	Total Funds Expended in 2011	***Total Funds Expended in 2010***	***Decrease***
Polytech SD	$3,300,688	3,838,192	(537,504)
Seaford SD	14,056,065	14,822,142	(766,077)

In addition, DOE changed is methodology in determining the expenditures for the school districts' excess cost calculations. In prior years, the calculations were performed based on Special Education units included within each school district's enrollment audits. The new methodology uses need-based Special Education units which have not been audited. Accordingly, we have not been able to substantiate the units used in the school districts' excess cost calculations.

Criteria:

Control exception:

The A-102 Common Rule and its attachments found in 34 CFR 80 requires that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exception:

LEA – LEVEL OF EFFORT

Individual Disability Education Act (IDEA), Part B funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of State and local funds, expended for this purpose by the LEA in the prior fiscal year. Allowances may be made for: (a) the voluntary departure, by retirement or otherwise, or departure for just cause, of special education personnel; (b) a decrease in the enrollment of children with disabilities; (c) the termination of the obligation of the agency, consistent with this part, to provide a program of special education to a particular child with a disability that is an exceptionally costly program, as determined by the State Educational Agency (SEA), because the child has left the jurisdiction of the agency, has reached the age at which the obligation of the agency to provide a free appropriate public education (FAPE) has terminated or no longer needs such program of special education; (d) the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities; or (e) the assumption of costs by the high cost fund operated by the SEA under 34 CFR section 300.704 (20 USC 1413(a)(2); 34 CFR sections 300.203 and 300.204).

Cause:

DOE is not reviewing the LEAs excess cost calculations for IDEA maintenance of effort included in the Consolidated Grant Applications. In addition, based on the change in methodology, we no longer can substantiate the Special Ed units being utilized in the excess cost calculations.

Effect:

The school districts have not properly documented their compliance with Special Education MOE requirements which could impact the amount of IDEA funds that should be available and allocated.

Questioned Costs:

Questioned costs associated with the $1,303,581 in apparent reduction of effort are not determinable.

Recommendation:

We recommend that the DOE carefully review the school districts excess cost calculations included within the Consolidated Grant Applications. When the school districts have a decrease in the excess cost calculation, the DOE should validate the rationale for the decrease and then make allocation adjustments, as necessary. Furthermore, we suggest that Needs-Based Special Education units now being utilized for the excess cost calculations be included as part of the State's enrollment audits.

Views of Responsible Officials:

Agency Contact Name: Eulinda DiPietro
Agency Contact Phone Number: 302-735-4016

Corrective Action Plan:

1. DE DOE fiscal and program staff will both review the IDEA Excess and MOE data in the LEA Consolidated Applications starting in the school year 2014-2015.
2. The 2014-2015 application process has been modified to include: identification of the school year for each calculation, radio buttons for each type of exception and a text field to provide the monetary amount for each exception.

Anticipated Completion Date: 11/2014

Reference Number:	2013-010
Related Prior Year Finding:	12-10
State Department Name:	Department of Education
School District Name (if applicable):	N/A
Federal Agency:	U.S. Department of Education
Federal Program:	Child and Adult Care Food Program
CFDA Number:	10.558
ARRA:	No
Compliance Requirement:	Eligibility (Subrecipients)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The applications of thirty-one subrecipients receiving $4,244,682 of funds during the year do not contain all the required components of the Program performance standards. These standards require that the organizations have documentation of administrative capability, which includes documentation of appropriate and effective management practices as well as an adequate number and type of staff to ensure the operation of the Program.

In addition, the Department does not have accountability procedures specific to for-profit entities in lieu of the Federal OMB Circular A-133 (Single Audit) for non-profit entities.

Total expenditures for the program during the year amounted to $14,985,465.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

In accordance with the Child and Adult Care Food (CACFP) Program, a State administering agency must follow the following eligibility requirements:

a. Administering agencies may disburse CACFP funds only to those organizations that meet the eligibility requirements stated in the following program requirements: (1) generic requirements for all institutions at 7 CFR section 226.15 and 42 USC 1766(a)(6) and (d)(1); (2) additional requirements for sponsoring organizations at 7 CFR section 226.16; (3) additional requirements for child care centers (whether independent or sponsored) at 7 CFR section 226.17; (4) additional requirements for day care homes (which must be sponsored) at 7 CFR section 226.18; (5) additional requirements for outside-school-hours centers at 7 CFR section 226.19; (6) additional requirements for adult day care centers (whether independent or sponsored) at 7 CFR section 226.19a; (7) additional requirements for at-risk afterschool programs at 7 CFR section 226.17a; and (8) additional requirements for emergency shelters at 42 USC 1766(t).

b. For-profit child care and outside-school-hours care centers may participate in the CACFP if they meet either of the following two criteria: (1) at least 25 percent of the enrolled children or 25 percent of the licensed capacity, whichever is less, are funded under Title XX of the Social Security Act; or (2) at least 25 percent of the children in their care are eligible for free or reduced price meals. Children who participate only in the at-risk afterschool component of the program must not be considered in determining whether the institution met this 25 percent threshold (42 USC 1766(a)(2)(B); 7 CFR section 226.11(c)(4)).

c. For-profit adult day care centers may be eligible for CACFP if at least 25 percent of their participants receive benefits under Title XIX or Title XX of the Social Security Act (7 CFR section 226.2 (definition of "for-profit center")).

For-profit subrecipients are accountable to the pass-through entity for the use of Federal funds provided. Because for-profit subrecipients are not subject to the audit requirements of OMB Circular A-133, pass-through entities are responsible for establishing requirements, as needed, to ensure for-profit subrecipient accountability for the use of funds.

Cause:

Standard applications have not been updated to ensure all federal regulations have been incorporated and are consistent. Additionally, formal requirements have not been established for the for-profit subrecipients receiving pass-through funding.

Effect:

The applications do not contain all the components required by federal regulations.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the Delaware Department of Education revise its CACFP applications to ensure all necessary components listed in the Federal regulations are explicitly incorporated. In addition, the Department needs to establish formal requirements for the for-profit subrecipients as this funding may continue to grow.

Views of Responsible Officials:

Agency Contact Name: *Linda C. Wolfe, Director, School Support Services*
Agency Contact Phone Number: *(302) 735-4060*

Corrective Action Plan:

- In October 2013, the CACFP sponsor application process was amended to ensure compliance with the administrative capability requirements.
- The Department will develop a process for compliance, at the state and local level, with requirements for the for-profit subrecipients participating in the CACFP program.

Anticipated Completion Date:

Completed (1st bullet)
June 30, 2014 (2nd bullet)

Reference Number:	2013-011
Related Prior Year Finding:	12-41
State Department Name:	Department of Education
School District Name (if applicable):	All School Districts
Federal Agency:	U.S. Department of Education
Federal Program:	Title I Grants to Local Educational Agencies, Special Education Cluster, State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants Recovery Act
CFDA Number:	84.010, S-84.389, 84.027, 84.173, S-84.392, S-84.395
ARRA:	Yes
Compliance Requirement:	Equipment and Real Property Management
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The State-wide fixed asset register within FSF identifies equipment with a purchase price of at least $25,000 that was acquired with federal funds. However, the register does not include detail of the equipment by each individual federal award (i.e. CFDA #), and does not include equipment purchases between $5,000 and $25,000.

In addition, certain individual state departments that administer federal programs do not maintain a subsidiary ledger outside of FSF in order to track and inventory federally funded equipment greater than $5,000 and they are not be able to rollforward the purchase and disposal activity during the fiscal year. Although many of the programs at the State have equipment purchases that are not significant to the overall federal programs, the three major programs cited (Title I, Special Education, and Race to the Top) had material purchases of equipment using federal awards. These programs also do not maintain a rollforward of equipment and real property purchases and disposals during the year.

Criteria:

Control Exception:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The State of Delaware's Budget and Accounting Policy Manual, Section 13.2.3, states, "The federal threshold for asset tracking is $5,000, which is lower than the State's CAPITAL asset threshold. Agencies are responsible for ensuring that all assets valued between $5,000 and $25,000 that are purchased with federal funds are properly accounted for in the agency's NOCAP records. Assets valued above $25,000 that are purchased with federal funds are maintained in the State's CAPITAL asset listings."

Compliance Exception:

Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of $5000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established.

A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State.

Local governments and Indian tribes shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. A-102 Common Rule requires that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. When equipment with a current per unit fair market value of $5000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

Cause:

While there are policies and procedures established by the State Department of Education, the School Districts do not consistently adhere to the policies and procedures to ensure the Program's maintain equipment rollforwards from year to year as well as determine whether the cumulative equipment balances are material to the program.

Effect:

The Programs could be purchasing or disposing of equipment in a manner different than what is required by federal regulations.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend the State Department of Education monitor compliance with their fixed asset policies and procedures as well as conduct a biannual inventory to validate the accuracy of the lists. This could be accomplished with coding to FSF property records or a separate subsidiary fixed asset ledger.

Views of Responsible Officials:

Agency Contact Name: Kim Wells (Title I) and Mary Ann Mieczkowski (IDEA)
Agency Contact Phone Number: 302-835-3326 (Wells) and 302-735-4211

Corrective Action Plan:

1. DE DOE will continue making available policies and procedures for equipment and property management on the DOE website.
2. DE DOE will continue providing guidance, technical assistance and resources on the DOE website and during grant and program specific technical assistance sessions.
3. DE DOE will continue to request and review inventory records, as applicable, during monitoring.

Anticipated Completion Date: 11/2014

Reference Number: 2013-012
Related Prior Year Finding: N/A
State Department Name: Department of Education
School District Name (if applicable): All School Districts
Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies, Special Education Cluster, Improving Teacher Quality, Child and Adult Care Food Program
CFDA Number: 84.010, S-84.389; 84.027, 84.173, S-84.392; 84.367; 10.558
ARRA: Yes
Compliance Requirement: Reporting (FFATA)
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

The State has an obligation to report subaward data as required under the Federal Funding Accountability and Transparency Act (FFATA). This includes entity information, DUNS number, Parent DUNS number, and relevant executive compensation data, if applicable.

Title I Grants to Local Educational Agencies, Special Education Cluster, and Improving Teacher Quality program funds are passed from the State's Department of Education to the State's school districts, which are included within the State's primary government. The school districts did not perform any kind of analysis to determine which of their vendors qualify as subgrantees and thus are subject to FFATA reporting requirements. The table below shows the number of vendors the school districts utilized:

	Number of school districts selected for testing receiving federal funds	**Number of vendors utilized by the school district's selected for testing**	**Total expenditures to the vendors for the school districts selected for testing**	**Total Non-payroll Expenditures for all school districts**
Title I	8	82	$5,209,566	$10,723,718
Special Education Cluster	8	54	$3,857,858	$11,183,985
Improving Teacher Quality	4	10	$315,881	$2,385,044

In addition, for the Child and Adult Care Food program, the requirements for subawards subject to FFATA were applicable for the entire fiscal year. However, the State did not begin reporting the required information until April 2013.

Criteria:

Control Exceptions:

The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance Exceptions:

Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting. The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts.

As provided in 2 CFR part 170 and FAR Subpart 4.14, respectively, Federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act. Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. They first are required to register in Central Contractor Registration (CCR) (if they have not done so previously for another purpose, e.g., submission of applications through Grants.gov) and actively maintain that registration.

Additionally, in accordance with 2 CFR Chapter 1, Part 170 REPORTING SUB-AWARD AND EXECUTIVE COMPENSATION INFORMATION, Prime Awardees awarded a federal grant are required to file a FFATA sub-award report by the end of the month following the month in which the prime awardee awards any sub-grant equal to or greater than $25,000. Reporting requirements shall include the following key data elements about the first-tier subrecipients and subawards under grants and cooperative agreements: subaward date, Subawardee DUNS number, amount of subaward, Subaward Obligation/Action Date, Date of Report Submission, and Subaward Number.

Cause:

The State and related school districts do not have procedures in place to ensure FFATA reporting requirements are being met.

Effect:

The State is not in compliance with the reporting requirements of FFATA as it did not properly report the required subaward data for its Child and Adult Food Care Program in a timely manner. In addition, the school districts did not report the required data for subrecipients for programs funded through the State's Department of Education.

Recommendation:

We recommend that the State and school districts implement procedures to properly report subaward and sub-contract data as required under FFATA.

Questioned Costs:

There are no questioned costs associated with this finding.

Views of Responsible Officials:

Agency Contact Name: Eulinda DiPietro
Agency Contact Phone Number: 302-735-4016

Corrective Action Plan:

The Delaware Office of Management and Budget and Department of Education disagrees with this finding and is seeking additional clarification and counsel from the U.S. Office of Management and Budget to determine if LEAs are required to complete FFATA reporting when the Delaware Department of Education is the grant recipient and issues the funds to LEAs as a subgrant.

Anticipated Completion Date: 11/2014

Auditor Response:

KPMG notes that no support has been provided by DOE or the school districts to support that FFATA reporting is not required for the school districts.

Reference Number:	2013-013
Related Prior Year Finding:	12-13
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Management Services
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Supplemental Nutrition Assistance Program Cluster (SNAP); Temporary Assistance for Needy Families (TANF)
CFDA Number:	10.551, 10.561; 93.558
ARRA:	No
Compliance Requirement:	Reporting (SEFA Reconciliation)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Expenditures reported to the federal agencies for both SNAP and TANF did not agree to expenditures presented on the Schedule of Expenditure of Federal Awards (SEFA), which comes from the State's general ledger.

Program management and the Division of Management Services (DMS) were unable to provide explanations or reconcile the following variances:

SNAP			
	6/30/2013	**Variance to SEFA**	**Percent Variance**
Federal Expenditures Per SEFA*	$ 11,383,950		
Federal Expenditures Reported*	$ 10,757,817	$ 626,133	5.50%

TANF			
	6/30/2013	**Variance to SEFA**	**Percent Variance**
Federal Expenditures Per SEFA	$ 29,609,413		
Federal Expenditures Reported	$ 19,028,006	$ 10,581,407	55.61%

***** *This amount excludes non-cash items*

Criteria:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The SEFA is prepared by the auditee, and must be presented fairly in all material respects in relation to the auditee's financial statements as a whole. The SEFA represents the expenditures subject to audit under the Single Audit.

> *45.CFR.92.20 (b) The financial management systems of other grantees and subgrantees must meet the following standards:*
>
> *(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant;*
>
> *(2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.*

The regulation effectively requires that the Federal Financial reports are to be supported by the official books and records of the grantee.

Cause:

There are many potential causes for differences in the numbers reported above including 1) scope of grants included in federal financial reports differing from SEFA reports, 2) adjustments being made to reporting that cross programs or periods, 3) differences in coding of underlying data in the reporting module, 4) settlements with federal government requiring adjustment, and 5) errors made by program personnel. The differences cannot be reconciled because there is no procedure in place for the State agencies to reconcile total expenditures reported in the financial reports to the Federal Government as compiled from the State's general ledger system (FSF) to the reports from FSF that are the source of the SEFA.

Effect:

Expenditures reported in federal financial reports may be misstated which results in the Federal Government having inaccurate information about the expenditures that were incurred by the programs. The lack of reconciliation may also result in inaccurate draw downs of cash for the federal programs. See findings **2013-019** and **2013-020** for known errors in financial reporting.

Questioned Costs:

Unreconciled variances listed above may be questioned costs.

Recommendation:

We recommend that the Divisions ensure they are performing reconciliations of expenditures per federal financial reports to expenditures coded to their CFDA numbers in FSF.

Views of Responsible Officials:

Agency Contact Name: Robert Bubacz

Agency Contact Phone Number: 302-255-9247

Corrective Action Plan:

The Department of Health and Social Services believes that the reason for the cited variance is due to reporting errors on submitted SNAP and TANF reports. DHSS recognized this as a problem and as a result in FY-14, DHSS brought in outside technical assistance in an effort to expand the documentation review/ procedures for preparing the quarterly SNAP and TANF reports. This outside assistance includes a heightened level of review and quality control of the supporting work papers for the reports prior to submission. We believe that this enhanced level of support during the reporting process will address the:

- Need for a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the report;
- The need to strengthen policies and procedures surrounding obtaining and reconciling the expenditure support and DGL123 reports from all departments incurring costs relating to the SNAP and TANF Programs prior to preparation and submission of the Federal Financial reports. This will include the creation of checklists and supporting procedures to enhance the depth of polices/procedures.

Additionally, DHSS will include in the outside technical assistance review/quality control process a reconciliation of the expenditure reports to the State Financial System as part of the preparation of quarterly federal reports. The technical assistance effort began in earnest later in FY-14 (1/1/14) and will be substantially used for the report to be submitted for the quarter ending 3/31/14.

Anticipated Completion Date:

Revised report: May 15, 2014 for the report for the quarter ending March 31, 2014.

Heightened level of review/quality control of reports prior to submission and strengthened policies/procedures: Groundwork began January 1, 2014 and will be substantially used for the report for the quarter ending March 31, 2014.

Reference Number: 2013-014
Related Prior Year Finding: N/A
State Department Name: Department of Health and Social Services
State Division Name (if applicable): Division of Management Services
Federal Agency: U.S. Department of Agriculture; Centers for Disease Control and Prevention
Federal Program: Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC); Immunization Cluster
CFDA Number: 10.557; 93.268
ARRA: Yes
Compliance Requirement: Allowable Costs (Effort Reporting)
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

We sampled 40 Information Resource Management (IRM) payroll expenditures over 4 major programs at DHSS (Child Support Enforcement, Immunization Cluster, PHEP, and Special Supplemental Nutrition Program for Women, Infants, and Children [WIC]), reviewed supporting documentation, and interviewed the employees to determine if they actually performed the work as charged and if the certifications provided during the audit were the certifications submitted by the employee. Our testing identified one WIC program Time and Effort certification that was not dated for one quarter and therefore cannot be validated as an after the fact distribution of the actual activity of the employee. We also identified 8 Immunization transactions totaling $13,803, where the employee was not 100% charged to the grant, and the Time and Effort certification was not completed on at least a monthly basis.

Total payroll expended for the WIC and Immunization programs were $2,703,030 and 1,010,639, respectively, which includes IRM payroll charges. Additionally, total payroll expended by IRM over DHSS's major programs was $1,047,401. Below is the distribution of the samples selected for testing per DHSS' major program.

Program	CFDA #	No. of Samples Tested	$ Value of Samples Tested	No. of Exceptions	$ Value of Exceptions
Child Support Enforcement	93.563	20	44,471	-	-
Immunization Cluster	93.268	13	29,918	8	13,803
Public Health Emergency Preparedness (PHEP)	93.069	3	10,034	-	-
Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	10.557	4	9,966	1	2,491
Total		**40**	**94,389**	**9**	**16,294**

Criteria:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The COSO framework for Internal control consists of five interrelated components. These are derived from the way management runs a business, and are integrated with the management process. Two of the control components are:

- Control Activities—Control policies and procedures must be established and executed to help ensure that the actions identified by management as necessary to address risks to achievement of the entity's objectives are effectively carried out.
- Monitoring—The entire process must be monitored, and modifications made as necessary. In this way, the system can react dynamically, changing as conditions warrant.

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact

distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Cause:

The exceptions occurred because IRM does not have appropriate policies and procedures in place as to a when certification has to be prepared and reviewed. Additionally, when the employee's effort is reduced from 100%, the frequency of time and effort certifications is not modified. As a result, the design of the effort reporting policy is not appropriate for employees who work on multiple grant programs.

Effect:

Employees are recording payroll charges to the federal grant that are not properly documented.

Questioned Costs:

Questioned costs related to the errors in the sample are $16,294.

Recommendation:

We recommend that DHSS ensure Time and Effort certifications contain an adequate level of supervisory review and are in compliance with the federal requirements. We suggest that DHSS conduct annual training on the regulations and policies and procedures associated with effort reporting and include the training as part of new employee orientation.

Views of Responsible Officials:

Agency Contact Name: Kevin F. Kelley, Sr. DMS Director

Agency Contact Phone Number: (302) 255-9088

Regarding the exceptions noted in the Condition of this finding, we would like to provide the following observations and response.

- One (1) time and effort certification tested was in error not dated by the employee and therefore considered not properly completed. The employee unfortunately, did not date the effort report but we would like to state that the work activities performed by the employee and cost supported and are allowable under WIC.
- Eight (8) Immunization transactions totaling $13,803, where the employee was not 100% charged to the grant, and the Time and Effort certification was not completed on at least a monthly basis. It should be pointed out that the employee recorded their time and work activities on a daily basis into a time study system. While the certification was done quarterly, the actual time was recorded on a daily basis upon which the final payroll charges to the multiple activities (including the Immunization grant) were based. The costs are allowable under the Immunization program and were based upon actual time devoted to supporting the program.

Corrective Action Plan:

A departmental policy on time and effort reporting is in the process of being formulated. This policy will be departmental in scope and once complete, it will be issued and disseminated departmentally. It will include the requirement, basis and importance of effort reporting, frequency and, where needed, to align/recode payroll charges to reflect effort as a required and ongoing process. It will also include the appropriate standards for monitoring/review of employee time/effort certifications by supervisors. Subsequently, training will be provided to departmental staffs completing effort reports as well as managers who supervise those staff.

Regarding the suggested annual training included in the recommendation, DHSS will review the logistics and resources related to providing this training on an annual basis. Additionally, regarding it being included in new employee training, DHSS will look into how this could be accomplished as the effort reporting requirement is only applicable to certain staff.

Anticipated Completion Date:

Departmental policy formulation: March 31, 2014

Provision of training: By July 31, 2014

Reference Number:	2013-015
Related Prior Year Finding:	12-26
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of State Service Centers
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Low Income Home Energy Assistance Program
CFDA Number:	93.568
ARRA:	No
Compliance Requirement:	Reporting/ Period of Availability
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

LIHEAP did not correctly prepare the annual Carryover & Reallotment Report for federal fiscal year ending September 30, 2012. The amount reported as the "Projected Unobligated balance" was the maximum amount allowed to be carried over, $1,195,690 (10% of total available funds awarded, however, First State Financials (FSF) only showed $1,036,962 was remaining to be spent.

In addition, LIHEAP during the year transferred another 10% of their funds ($1,195,690) to DNREC to utilize but the funds had not been spent or encumbered as of the report date. LIHEAP also incorrectly excluded this transfer from their calculation of the "Projected Unobligated balance".

As a result of these two items, the report and its supporting detail contained the following errors:

- The reported "Projected Unobligated balance" should have been $2,232,652, which consists of the remaining balance in FSF of $1,036,962 and the $1,195,690 not spent or obligated by DNREC. Therefore, the "Projected Unobligated balance" was understated by $1,036,962.
- As a result, the reported "Reallotment amount" of $0 was understated by $1,036,962. The amount reported should have been $1,036,962.

Criteria:

Reporting

Grantees must submit a report no later than August 1 indicating the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year, and must be reported (42 USC 8626).

Period of Availability

At least 90 percent of the LIHEAP block grant funds payable to the grantee must be obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or carried over) for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to ACF. There are no limits on the time period for expenditure of funds (42 USC 8626).

Leveraging incentive award funds and REACH funds must be obligated in the year in which they are awarded or the following fiscal year, without regard to the carryover limit. However, they may not be added to the base on which the carryover limit is calculated (45 CFR sections 96.87(j)(1) and (k)).

Funds not obligated within these time periods must be returned to ACF (45 CFR section 96.87(k)).

LIHEAP emergency contingency funds are generally subject to the same obligation and expenditure requirements applicable to the LIHEAP block grant funds, but the contingency award letter should be reviewed to see if different requirements were imposed.

Cause:

LIHEAP incorrectly reported the maximum amount allowed to be reported rather than what was in FSF for unencumbered funds. Also, LIHEAP did not follow up with DNREC prior to submitting the report in August to determine if the $1,195,960 of FY12 funds transferred were expected to be expended or obligated by DNREC by the September 30 report cut off date. LIHEAP discovered after submission of the report that DNREC had not expended or obligated the $1,195,960 of funds as of September 30, 2012 and LIHEAP received the funds back on September 4, 2012.

Effect:

LIHEAP carried over to the next fiscal year more than 10% of the allowed amount and, as such, reported incorrect amounts to the Federal Government. In addition, since LIHEAP did not obligate at least 90% of the funds, the Program must return unobligated funds above the 10% carryover threshold.

Questioned Costs:

There questioned costs associated with this finding are $1,036,962 which represents the excess unobligated funds carryover.

Recommendation:

We recommend that LIHEAP continuously monitor funds that have been transferred to other State agencies to understand and report the actual amount expended. Additionally, they should update and resubmit any incorrect reports.

Views of Responsible Officials:

Agency Contact Name: Cynthia Manlove

Agency Contact Phone Number: 302-255-9692

We would like to underscore that the questioned costs represent excess unobligated carryover funds, and do not represent unallowable expended funds.

Corrective Action Plan:

LIHEAP will ensure that entities in receipt of transferred LIHEAP funds submit quarterly and annual reports of all expenditures and vendor payments as required by Memoranda of Agreement. The Division of State Service Centers/LIHEAP will monitor the entities monthly (but no less frequently than quarterly) to understand and report the actual amount expended. In addition, LIHEAP will follow up with the

appropriate entities prior to submitting the report in August to determine if the funds transferred are expected to be expended or obligated by the September 30 report cut-off date.

LIHEAP will submit a corrected FFY12 Reallotment Report which will (1) correct the reporting error and the understated unobligated balance and (2) effectively return the $1,036,962.70 in unobligated funds (in excess of the 10%) which cannot be carried forward.

Anticipated Completion Date:

Reporting (regarding entities in receipt of LIHEAP funds) – January 31, 2014

Corrected Reallocation report – January 31, 2014

Reference Number:	2013-016
Related Prior Year Finding:	12-20
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Social Services (DSS)
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575 and 93.596
ARRA:	No
Compliance Requirement:	Allowable Costs (Effort Reporting)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

DSS uses Time Distribution sheets as a mechanism to allocate the time charged by employees to various State and Federal initiatives. They are prepared by the employee and reviewed by a supervisor. During the testing of allowable costs for payroll, thirteen out of nineteen employees sampled submitted Time and Effort reports and/or time distribution sheets that were not properly approved and reviewed by a supervisor for multiple pay cycles, were not properly certified, or were otherwise incorrectly prepared as described below. This represented seventeen out of sixty-five payroll transactions examined. The thirteen employees charged $15,498 to the program out of our sample of $97,214. Total payroll expended for the program was $1,259,479. Of the nineteen employees tested, the following exceptions were found:

- Four (4) time and effort certifications tested were not dated by the employee and therefore considered not properly completed.
- Nine (9) time and effort certifications and/or time distributions tested were not properly approved by the employee's supervisor.
- One (1) time and effort certification tested was approved by the supervisor 10 months after the employee completed the certification (on the date of the audit request).
- One (1) employee tested resigned effective October 5, 2012 but the program was still charged for the period October 8, 2012 through October 20, 2012.
- Three (3) time and effort certifications tested were certified prior to the end of the period being certified.
- One (1) employee tested did not prepare a time and effort certification and the employee is correctly deemed to have worked 100% to the CCDF Program.
- Eight (8) out of 65 payroll charges tested charged the program more than the employee certified in their time and effort certification and/or time distribution.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled.
  (OMB Circular A-87, Attachment B.8.h.6)

Cause:

The exceptions occurred because these employees are part of the Delaware Department of Justice and the Delaware Department of Education, and the Division of Social Services does not have procedures established that require supervisor review and approval of time charged to the Federal grants from employees outside of DSS.

Effect:

Incorrect or unapproved payroll charges are being recorded to the federal grant.

Questioned Costs:

Questioned costs related to unapproved, incorrect or inappropriate time and effort certifications in the sample are $15,498.

Recommendation:

We recommend that DSS enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort reports as well as enhancing its policies and procedures in preparation of the time and effort certification to ensure compliance with the federal requirements. We suggest that DSS conduct annual training on the regulations, policy and procedure associated with effort reporting and include the training as part of new employee orientation.

Views of Responsible Officials:

Agency Contact Name: Ray Fitzgerald

Agency Contact Phone Number: 302-255-9645

Regarding the exceptions noted in the Condition of this finding, we would like to provide the following observations and response.

- Four (4) time and effort certifications tested were not dated by the employee and therefore considered not properly completed. The employees unfortunately did not date the effort reports but the work activities and cost are allowable and support the CCDF program from the DE Department of Education.
- Nine (9) time and effort certifications and/or time distributions tested were not properly approved by the employee's supervisor. Although A-87 does not require the supervisor's signature – it is a good control measure to have a supervisory review which will be incorporated into policy/procedures outlined in the corrective action. The work activities and costs reflected on the employees time certifications are allowable under CCDF.
- One (1) time and effort certification tested was approved by the supervisor 10 months after the employee completed the certification (on the date of the audit request). The employee for this effort report is the CCDF Administrator for DE, writes and administers the State CCDF plan, etc. While it is certainly unfortunate that supervisory approval occurred in timing that it did, the work activities of the employee and time charged to CCDF are 100% allowable under the grant.
- One (1) employee tested resigned effective October 5, 2012 but the program was still charged for the period October 8, 2012 through October 20, 2012. DSS will recode $498.65 to State funding.
- Three (3) time and effort certifications tested were certified prior to the end of the period being certified. We agree that the effort reports should not have been certified prior to the end of the period. While this is certainly unfortunate and should not have occurred, these employees work activities are completely devoted to the child care program and are allowable under CCDF. These work activities encompass working with child care providers, creating and maintaining policy, managing CCDF funded contracts, CCDF quality initiatives, etc.
- One (1) employee tested did not prepare a time and effort certification and the employee is correctly deemed to have worked 100% to the CCDF Program. This employee should have completed an effort report, but unfortunately did not. While the effort report should have been completed, this employee's

work is 100% devoted to CCDF in the areas of working with child care providers, creating and maintaining child care policy, etc.

- Six (6) out of 65 payroll charges tested charged the program more than the employee certified in their time and effort certification and/or time distribution. DSS will recode $1,448.93 to State funding.

We agree that DSS must strengthen its system of tracking the proper and timely completion of effort reports.

Corrective Action Plan:

A departmental policy on time and effort reporting is in the process of being formulated. This policy will be departmental in scope and once complete, it will be issued and disseminated departmentally. It will include the requirement, basis and importance of effort reporting, frequency and, where needed, to align/recode payroll charges to reflect effort as a required and ongoing process. It will also include the appropriate standards for monitoring/review of employee time/effort certifications by supervisors. Subsequently, training will be provided to departmental staffs completing effort reports as well as managers who supervise those staff.

Additionally, DSS will design and put in place an effort reporting tracking system to ensure that CCDF effort reports are properly completed and tracked. This will include assigning an administrator to review effort reports and track the corrective action plan for this finding.

Anticipated Completion Date:

Departmental policy formulation: March 31, 2014

Provision of training: By July 31, 2014

Recoding of funds to State funding: By June 30, 2014

Reference Number:	2013-017
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Social Services (DSS)
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Temporary Assistance for Needy Families (TANF)
CFDA Number:	93.558
ARRA:	No
Compliance Requirement:	Allowable Costs (Effort Reporting)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

DSS uses Time Distribution sheets as a mechanism to allocate the time charged by employees to various State and Federal initiatives. They are prepared by the employee and reviewed by a supervisor. Payroll expenditure testing for allowable costs revealed that eight out of fifteen employees sampled submitted Time and Effort reports/Time Distribution sheets which were not properly approved and reviewed by a supervisor for multiple pay cycles, were not properly certified, or were otherwise incorrectly prepared as described below. This represented seventeen out of forty payroll transactions examined. The eight employees charged $2,010 to the program out of our sample of $31,022. Total payroll expended for the program was $3,046,070. Of the fifteen employees tested, the following exceptions were found:

- One (1) time and effort certification tested was not dated by the employee and therefore considered not properly completed. Costs charged to the program amounted to $76.
- Six (6) time and effort certifications and/or time distributions tested were not properly approved by the employee's supervisor. These control exceptions amounted to $1,811.
- Two (2) time and effort certifications or time distributions were not provided as they could not be located. These amounted $198.
- Nine (9) out of 40 payroll charges tested charged the program more than the employees certified in their time and effort certifications and/or time distributions. These amounted to $273.
- Five (5) out of the forty payroll charges tested charged the program less than the employees certified in their time and effort certifications and/or time distributions. This undercharge amounted to $2,598.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that

program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact

distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled.
  (OMB Circular A-87, Attachment B.8.h.6)

Cause:

The exceptions occurred because these employees are part of the Delaware Department of Justice and the Division of Social Services does not have procedures established that require supervisor review and approval of time charged to the federal grants from employees outside of DSS.

Effect:

Employees are recording the incorrect or unapproved payroll charges to the federal grant.

Questioned Costs:

Questioned costs related to unapproved, incorrect or inappropriate time and effort certifications in the sample are $547.

Recommendation:

We recommend that DSS enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort reports as well as enhancing its policies and procedures in preparation of the time and effort certification to ensure compliance with the federal requirements. We suggest that DSS conduct annual training on the regulations, policy and procedure associated with effort reporting and include the training as part of new employee orientation.

Views of Responsible Officials:

Agency Contact Name: Ray Fitzgerald

Agency Contact Phone Number: 302-255-9645

Regarding the exceptions noted in the Condition of this finding, we would like to provide the following observations and response.

- One (1) time and effort certification tested was not dated by the employee and therefore considered not properly completed. The employee unfortunately did not date the effort report but we would like to state that the work activities and cost are allowable under TANF.
- Six (6) time and effort certifications and/or time distributions tested were not properly approved by the employee's supervisor. Although A-87 does not require the supervisor's signature – it is a good control measure to have a supervisory review which will be incorporated into policy/procedures outlined in the corrective action. We would also like to state that the work activities and costs related to the 6 time and effort certifications are allowable under TANF.
- In the samples reviewed by the auditors, while $471.62 was overcharged to the program, 5 employees were undercharged to the program in the amount of $2,598.26.
- Two (2) time and effort certifications or time distributions were not provided as they could not be located. The $198.28 associated with this exception is offset by the $2,598.26 that was undercharged to the program.
- Nine (9) out of 40 payroll charges tested charged the program more than the employee certified in their time and effort certifications and/or time distributions. The $273.36 associated with this exception is offset by the $2,598.26 that was undercharged to the program.

We agree that DSS must strengthen its system of tracking the proper and timely completion of effort reports.

Corrective Action Plan:

A departmental policy on time and effort reporting is in the process of being formulated. This policy will be departmental in scope and once complete, it will be issued and disseminated departmentally. It will include the requirement, basis and importance of effort reporting, frequency and, where needed, to align/recode payroll charges to reflect effort as a required and ongoing process. It will also include the appropriate standards for monitoring/review of employee time/effort certifications by supervisors. Subsequently, training will be provided to departmental staffs completing effort reports as well as managers who supervise those staff.

Additionally, DSS will design and put in place an effort reporting tracking system to ensure that TANF effort reports are properly completed and tracked. This will include assigning an administrator to review effort reports and track the corrective action plan for this finding.

Anticipated Completion Date:

Departmental policy formulation: March 31, 2014

Provision of training: By July 31, 2014

Reference Number:	2013-018
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Social Services (DSS)
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Temporary Assistance for Needy Families (TANF)
CFDA Number:	93.558
ARRA:	No
Compliance Requirement:	Penalty for Failure to Comply with Work Verification Plan
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

For 5 out of 40 cases sampled, the Division of Social Services (DSS) was unable to provide documentation to support that work verification was performed. DCIS-II is the State's beneficiary database. The five identified exceptions are as follows:

- DCIS-II was not updated to reflect the attainment of employment during the State fiscal year ended June 30, 2013 for 1 participant examined.
- DCIS-II indicated employment for 2 participants; however, DSS was unable to provide proof that work verification has been completed.
- DCIS-II indicated loss of employment in May 2012 for 1 participant; however, DSS was unable to provide proof that work verification has been completed.
- DCIS-II indicated 1 participant to have been most recently employed in 2005; however, evidence of post-2005 employment was observed.

Benefits provided to the 5 recipients were $2,864 while benefits provided to the recipients sampled were $152,666. Total benefits provided through the program were $20,770,469.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Per 45 CFR sections 261.60, 261.61, 261.62, 261.63, 261.64, and 261.65, the State agency must maintain adequate documentation, verification, and internal control procedures to ensure the accuracy of the data used in calculating work participation rates. In so doing, it must have in place procedures to (a) determine whether its work activities may count for participation rate purposes; (b) determine how to count and verify reported hours of work; (c) identify who is a work-eligible individual; and (d) control internal data transmission and accuracy. Each State agency must comply with its HHS-approved Work Verification Plan in effect for the period that is audited. HHS may penalize the State by an amount not less than one percent

and not more than five percent of the SFAG for violation of this provision (42 USC 601, 602, 607, and 609).

Cause:

The Department of Health and Social Services procedures do not include a supervisory review or system edit check to validate appropriate employment information has been entered into the DCIS-II system with hardcopy evidence uploaded in Document Imaging System (DIS). There is also a deficiency in the routine triggering redetermination of case file information needed to maintain current data on each case file's work status.

Questioned Costs:

There are $2,864 of questioned costs associated with the items noted above.

Effect:

Without the proper work verification procedures control in place, DSS may not detect or deter non-compliance, and DSS may continuously allow participants to benefit from the program even though they are no longer in compliance with the federal requirements.

Recommendation:

We recommend that the Department of Health and Social Services implement necessary policies and procedures surrounding work verification activities for all TANF applicants/recipients in order to maintain up-to-date information with appropriate supporting documentation within both DCIS-II and DIS.

Views of Responsible Officials:

Agency Contact Name: Ray Fitzgerald

Agency Contact Phone Number: 302-255-9645

Corrective Action Plan:

DSS will add employment verification review language to the Supervisory tool we use to review a random sample of cases for accuracy each month. DSS will also expand its centralized electronic filing system so that the system will be in all state offices by the end of May 2014. This expansion will create a secure, consistent and uniformed statewide filing system that will improve the availability and retrieval of client information as well as standardizing the labeling of documents statewide. The case review changes will ensure that required documentation is received and the DIS expansion will ensure that all documents received are uploaded into the DIS system and retrievable because they are labeled properly.

Additionally, DSS will recode the questioned costs to State funds.

Anticipated Completion Date:

Supervisory tool revision: June 30, 2014

Electronic file system expansion: May 31, 2014

Recode of questioned costs: June 30, 2014

Reference Number:	2013-019
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Social Services
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Temporary Assistance for Needy Families (TANF)
CFDA Number:	93.558
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The testing of two quarterly ACF-196 reports revealed the following errors which were not detected during management's review and submission of reports:

1. The total TANF federal amount of $10,897,231 as reported on line 7 (columns A and D) on the ACF-196 report for March 31, 2013 did not reconcile to the amount of $14,674,497 reflected on the State's financial system (FSF) or intermediary supporting documentation provided.

2. The total TANF federal amount of $17,897,047 reported on line 7 (columns A and D) on the ACF-196 report for June 30, 2013 did not reconcile to the amount of $19,421,518 reflected on the State's financial system (FSF) or intermediary supporting documentation provided.

3. The Child Care Non-Assistance amount of $7,431,553 reported on line 6b on the ACF-196 Report for June 30, 2013 was incorrectly calculated. The amount reported was understated by $1,209,453 because this amount was deducted twice in the supporting Excel calculation.

4. The 'Non-Recurrent Short Term Benefits' amount of $59,776 as reported on line 6g was entered on the incorrect line of the ACF-196 Report for June 30, 2013. This amount was actually 'Administration' and should have been reported on line 6j.

5. The 'Administration' amount of $3,607,224 as reported on line 6j was understated by $374,794 because expenditures from other departments were omitted.

The ACF-196 is a cumulative report filed quarterly. The table below summarizes identified errors within the March and June 2013 reports:

	FSF / Audited Amt	ACF-196	ACF-196 v Audited Amt
March 31, 2013			
Total Expenditures	$ 14,674,497	$ 10,897,231	$ (3,777,266)
June 30, 2013			
Child Care Non-Assistance	$ 8,641,006	$ 7,431,553	$ (1,209,453)
Non-Recurrent Short Term Benefits	-	59,776	59,776
Administration	3,982,018	3,607,224	(374,794)
Total Expenditures	9,421,518	17,897,047	(1,524,471)
Cumulative difference @ 6/30/2013			$ (1,524,471)

Criteria:

Control Exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance Exception:

Per 45 CFR Section 265.3(c), "(1) Each State must file quarterly expenditure data on the State's use of Federal TANF funds, State TANF expenditures, and State expenditures of MOE funds in Separate State programs. (2) If a State is expending Federal TANF funds received in prior fiscal years, if must file a separate quarterly TANF Financial Report (or, as applicable, Territorial Financial Report) for each fiscal year that provides information on the expenditures of that year's TANF funds."

Cause:

Multiple State agencies expend TANF funds and the Department of Health and Social Services does not have a procedure in place to obtain and reconcile other State department expenditures that are included within the ACF-196 reports. Additionally, several mathematical and other errors are due to preparer error and the absence of a detailed review.

Effect:

Misstated federal financial reports are result in the Federal Government having inaccurate information about the expenditures that were incurred by the programs. Since all amounts drawn down are based on the State's financial system, amounts drawn were not affected. These reports are cumulative and the amounts from June 30, 2013 are carried forward potentially causing subsequent reports to be incorrect.

Questioned Costs:

Total TANF Expenditures	
Total Expenditure Per ACF-196	$ 17,897,047
Total Correct Expenditure	$ 19,421,518
Under-reported Cost	***($ 1,524,471)***

Recommendation:

We recommend that the Department of Health and Social Services submit a revised report to correct these misstatements. We further recommend that the Department of Health and Social Services implement policies and procedures surrounding obtaining and reconciling the expenditure support and DGL123 reports from all departments incurring costs relating to the TANF Program prior to preparation and submission of the Federal Financial reports. We also recommend implementation of a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the report.

Views of Responsible Officials:

Agency Contact Name: Robert Bubacz

Agency Contact Phone Number: 302-255-9247

Corrective Action Plan:

The Department of Health and Social Services will submit a revised report to correct the cited reporting errors. We would also like to state that in FY-14, DHSS brought in outside technical assistance in an effort to expand the documentation review/ procedures for preparing the quarterly TANF report. This outside assistance includes a heightened level of review and quality control of the supporting work papers for the reports prior to submission. We believe that this enhanced level of support during the reporting process will address the:

- Need for a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the report;
- The need to strengthen policies and procedures surrounding obtaining and reconciling the expenditure support and DGL123 reports from all departments incurring costs relating to the TANF Program prior to preparation and submission of the Federal Financial reports. This will include the creation of checklists and supporting procedures to enhance the depth of polices/procedures.

Additionally, DHSS will include in the outside technical assistance review/quality control process a reconciliation of the expenditure reports to the State Financial System as part of the preparation of quarterly federal reports. The technical assistance effort began in earnest later in FY-14 (1/1/14) and will be substantially used for the report to be submitted for the quarter ending 3/31/14.

Anticipated Completion Date:

Revised report: May 15, 2014 for the report for the quarter ending March 31, 2014.

Heightened level of review/quality control of reports prior to submission and strengthened policies/procedures: Groundwork began January 1, 2014 and will be substantially used for the report for the quarter ending March 31, 2014.

Reference Number:	2013-020
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Social Services Division of Accounting
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Supplemental Nutrition Assistance Program (SNAP)
CFDA Number:	10.551, 10.561
ARRA:	No
Compliance Requirement:	Reporting: Financial Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Testing of two quarterly SF-425 reports revealed the following errors on the June 30, 2013 report which were not detected during management's review and submission:

1. The 'Federal share of expenditures' amount of $9,314,536 as reported on line 10 of page 1 (item e) of the SF-425 does not reconcile to the expenditures reported in the State's financial system (FSF) of $9,437,173. This includes the elements below:

   a) The 'State Exchange' amount of $4,731 as reported on section 10, column 24 of the SF-425 does not reconcile to the expenditures reported in FSF of $2,365.

   b) The 'Certification' amount of $7,433,132 as reported on section 10, column 1 of the SF-425 does not reconcile to the expenditures reported in FSF of $7,625,748.

   c) The 'Fraud Control' amount of $12,759 as reported on section 10, column 5 of the SF-425 does not reconcile to the expenditures reported in FSF of $0.

   d) The 'Outreach' amount of $10,221 as reported on section 10, column 17 of the SF-425 does not reconcile to the expenditures reported in FSF of $20,442.

   e) The 'ADP Development' amount of $1,078,365 as reported on section 10, column 6 of the SF-425 does not reconcile to the expenditures reported in FSF of $0.

   f) The 'ADP Operations' amount of $140,075 as reported on section 10, column 7 of the SF-425 does not reconcile to the expenditures reported in FSF of $1,153,365. Additionally, Outreach modernization expenditures of $1,153,365 were miscoded to ADP Operations instead of ADP Development in FSF. The project is still in the Design, Development and Implementation (DDI) stage, and funding for the Maintenance and Operations (M&O) stage is not authorized until the 4th quarter of Federal Fiscal Year 2014.

These errors are summarized in the table below:

June 30, 2013				
	FSF	**SF-425**	**Audited Amt**	**SF-425 v Audited Amt**
Federal share of Expenditures	$ 9,437,173	$ 9,314,536	$ 9,437,173	$ (122,637)
State Exchange	2,365	4,731	2,365	2,366
Certification	7,625,748	7,433,132	7,625,748	(192,616)
Fraud Control	0	12,759	0	12,759
Outreach	20,442	10,221	20,442	(10,221)
ADP Development/DDI	-	$ 1,078,365	1,153,365	(75,000)
ADP Operations/M&O	1,153,365	140,075	-	140,075
Net ADP Over reported				$ 65,075

Criteria:

Control Exception:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance Exception:

SF-425, Federal Financial Report-

1) The submission of interim FFRs will be on a quarterly, semi-annual, or annual basis, as directed by the Federal agency. A final FFR shall be submitted at the completion of the award agreement. The following reporting period end dates shall be used for interim reports: 3/31, 6/30, 9/30, 12/31. For final FFRs, the reporting period end date shall be the end date of the project or grant period.

2) Quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period. Annual reports shall be submitted no later than 90 days after the end of each reporting period. Final reports shall be submitted no later than 90 days after the project or grant period end date.

Cause:

- The 'Certification' exception occurred because multiple state agencies expend SNAP funds and the Department of Health and Social Services does not have a procedure in place to obtain and reconcile other State department expenditures.

- The 'State Exchange' exception occurred because the amount was incorrectly doubled by the preparer when entered into the report.
- The 'Fraud Control' error occurred because this is an allocated amount which the preparer miscalculated in a previous report.
- The 'Outreach' exception occurred because of a misunderstanding of the required calculation by the preparer.
- The 'ADP' exceptions occurred because of preparer error and the absence of a detailed review.
- The 'Federal share of expenditures' is a summary of all reported expenditures on the SF-425 and contained the accumulation of all errors within the report. Additionally, the report did not properly account for a settlement with the federal agency.

Effect:

Expenditures reported via the June 30, 2013 federal financial report are misstated and result in the Federal Government having inaccurate information about program expenditures.

Questioned Costs:

June 30, 2013

Total Expenditures Per SF-425	$ 9,314,536
Total Expenditures Per FSF	$ 9,437,173
Under-reported Cost	***($ 122,637)***

Recommendation:

We recommend that the Department of Health and Social Services implement policies and procedures to obtain and reconcile the expenditure support and DGL123 reports from all departments incurring costs relating to the SNAP Program. We also recommend a more thorough independent review process of the supporting workpapers created by the report preparer.

Views of Responsible Officials:

Agency Contact Name: Robert Bubacz

Agency Contact Phone Number: 302-255-9247

Corrective Action Plan:

The Department of Health and Social Services will review the prior submission to correct the errors cited in this finding on the next cumulative report to be submitted on 4/30/14. We would also like to state that in FY-14, DHSS brought in outside technical assistance in an effort to expand the documentation review/ procedures for preparing the quarterly SNAP report. This outside assistance includes a heightened level of review and quality control of the supporting work papers for the reports prior to submission. We believe that this enhanced level of support during the reporting process will address the:

- Need for a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the quarterly report;

- The need to strengthen policies and procedures surrounding obtaining and reconciling the expenditure support and DGL123 reports from all departments incurring costs relating to the SNAP Program prior to preparation and submission of the Federal Financial reports. This will include the creation of checklists and supporting procedures to enhance the depth of polices/procedures.

Additionally, DHSS will include in the outside technical assistance review/quality control process a reconciliation of the expenditure reports to the State Financial System as part of the preparation of quarterly federal reports. In the process of future report reconciliation, the agency will correct category mis-coding errors. We would also like to point out that the technical assistance effort has been in place and utilized in earnest with the SNAP reports submitted for the FY-14 quarters.

Anticipated Completion Date:

Corrections will be submitted on the April 30, 2014 report for the quarter ending March 31, 2014.

The heightened level of review/quality control of reports prior to submission and strengthening of policies/procedures is an ongoing effort and was used for reports submitted throughout FY-14.

Reference Number:	2013-021
Related Prior Year Finding:	12-16
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Medicaid and Medical Assistance
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Medicaid Cluster
CFDA Number:	93.775, 93.777, 93.778
ARRA:	Yes
Compliance Requirement:	Eligibility
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

For 16 out of 90 applicants selected for testing, the Division of Medicaid and Medical Assistance (DMMA) was unable to provide documentation at our original request to support that the recipient signed a written application for benefits under the penalty of perjury. The file did contain, social security number, income verification, citizenship or qualified alien status, and annual recertification documentation.

Fourteen applications were provided 13 weeks after the original request, but prior to the completion of all fieldwork, leaving 2 applications not located. Benefits provided to the 2 recipients were $26,166 while the total benefits to the 90 applicants reviewed were $1,212,678. The total benefits paid during FY2013 amounted to $848,620,609.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Compliance exceptions:

There are specific requirements that must be followed to ensure that individuals meet the financial and categorical requirements for Medicaid. These include that the State or its designee shall:

B(1) Written Application

"Require a written application signed under penalty of perjury and include in each applicant's case records facts to support the agency's decision on the application (42 USC 1320b-7(d); 42 CFR sections 435.907 and 435.913).

Cause:

The missing applications are due to personnel failure to upload the application into the Document Imaging System (DIS) and/or the misplacement of the original application in the paper file.

Effect:

Households may receive government benefits without the legal security that individuals who make false statements will be persecuted to the full extent of the law. Federal monies may be utilized for recipients who did not qualify or continue to qualify for Medical assistance.

Questioned Costs:

There are questioned costs of $26,166 associated with the 2 missing applications.

Recommendation:

We recommend that the DMMA enhance their retention policies and procedures within their State Plan to ensure proper records are maintained to support the applicant eligibility determination.

Views of Responsible Officials:

Agency Contact Name: Ray Fitzgerald

Agency Contact Phone Number: 302-255-9645

The Division of Social Services was able to locate the documentation for 14 of the 16 recipients cited in this finding. We would like to point out that there were several factors that severely hampered our staff's ability to provide the requested documentation to the auditors within normal time frames.

- Implementation of the Affordable Care Act – significant central and field staff resources have had to be devoted to supporting this major initiative and increased client volume being referred for enrollment.
- Implementation of the Eligibility Modernization Project – on 10/1/13 the new DSS eligibility system was activated. System implementation has been challenging causing work backlogs to the point that significant overtime has had to be expended to clear backlogs to the point some staff are working 7 days per week.
- As a result, our efforts to locate these cases were severely hampered by these extraordinary circumstances.

We would also like to point out that the 2 case files related to the questioned costs did contain the "facts to support the agency's decision" regarding eligibility (42 CFR 435.914) and hence the questioned costs are an eligible and allowable cost under the Medicaid program.

Corrective Action Plan:

The Department will reinforce to DMMA and DSS staff that it is incumbent on staff to research ***all*** documentation sources at the time audit samples are provided. This will be reinforced by 6/30/14.

Anticipated Completion Date:

June 30, 2014

Reference Number: 2013-022
Related Prior Year Finding: N/A
State Department Name: Department of Health and Social Services
State Division Name (if applicable): Division of Child Support Enforcement
Federal Agency: U.S. Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
ARRA: No
Compliance Requirement: Reporting
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

KPMG reviewed all four Quarterly Expenditure Reports (OCSE-396A) for the State fiscal year ended June 30, 2013. The OCSE-396A for the quarters ended December 31, 2012, March 31, 2013, and June 30, 2013, contained the following errors:

- Total Annual User (DRA) Fee revenue was calculated incorrectly by the amounts listed in the table below for the subsequent quarters through June 30, 2013. The amount reported on the OCSE-396A was understated by $57,204.

Quarter Ending	Amount Reported per OCSE-396A	Actual Amount	(Understatement)
December 31, 2012	145,752	151,652	(5,900)
March 31, 2013	37,449	73,469	(36,020)
June 30, 2013	19,746	35,030	(15,284)
Totals	224,146	281,350	(57,204)

Criteria:

Control Exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance Reporting

The DCSE Program is required to submit the OCSE-396A, Quarterly Expenditures Report quarterly for each type of grant award received.

In addition, the 'Instructions for Completion of Form OCSE-396A' state that there are two parts to this report: Part 1 – Quarterly Report of Expenditures and Estimates and Part 2 – Itemized Prior Quarter Adjustments.

Cause:

The Excel formula used to calculate the (Total) Annual User (DRA) Fee for the quarter ended September 30, 2012 failed to include a needed cell. The formula error did not cause errors in the September 30th report and was not detected in the management review of the reports. The same formula was used for the subsequent quarters; consequently, the error was repeated for subsequent quarters through June 30, 2013.

Effect:

The DCSE Program reported incorrect amounts to the Federal Government.

Questioned Costs:

There are no questioned costs as the Program underreported net expenditures by $57,204 as a result of these errors.

Recommendation:

We recommend that DCSE include verification of underlying calculations for the OCSE-396A report in their review procedures. In addition, DCSE should submit revised OCSE-396A reports for those quarters to correct the understatements.

Views of Responsible Officials:

DCSE concurs with KPMG's finding. The finding was a result of an improperly formatted cell in a section of a worksheet used to calculate DCSE revenue for Federal reporting purposes. The correct revenue amounts for the reporting quarters were put into the cell, but because the cell was not formatted to recognize a number the amount was not auto summed as a part of the total DRA Fee revenue. Therefore we overstated our reported expenditures by mistakenly understating our revenue. Due to the accuracy and review of the auto sum feature in prior period reports, management relied on the subsequent spreadsheets' formulas as there was no reason to change or reformat the cell were the error occurred. However, during our review of the September 30, 2013 396A report and the supporting documentation we identified and made the necessary correction to the cell in our Excel spreadsheet. As a result of this finding and DCSE's review, we reported the amount understated in the prior quarters in the Sept. 30, 2013 396A report as a $57,204 adjustment. The impact of that adjustment reduced our FFY 2014 2nd Qtr grant award amount by $57,204 ($37,755 fed portion).

Agency Contact Name: **Charles Hayward**

Agency Contact Phone Number: **302-395-6520**

Corrective Action Plan:

Going forward, management will review the formulas each quarter and confirm the auto sum totals to ensure all amounts are being properly captured in the total calculation of revenues and expenditures.

Anticipated Completion Date: Completed

Reference Number:	2013-023
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Child Support Enforcement (DCSE)
Federal Agency:	United States Department of Health and Human Services
Federal Program:	Child Support Enforcement
CFDA Number:	93.563
ARRA [Yes/No]:	No
Compliance Requirement:	Allowable Costs (Effort Reporting)
Control Finding [Yes/No]	Yes
Compliance Finding [Yes/No]	No
Scope Limitation [Yes/No]	No

Condition:

DCSE employees complete Time and Effort Certifications to document the time charged by employees to various State and Federal initiatives. They are prepared by the employee and reviewed by a supervisor. Payroll expenditure testing for allowable costs revealed that six out of twelve employees sampled submitted Time and Effort Certifications which were not properly approved and reviewed by a supervisor for multiple pay cycles. This represented twenty-four out of forty payroll transactions examined. The six employees charged $58,160 to the program out of our sample of $98,289. Total payroll expended for the program was $5,263,450.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments

made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled.
  (OMB Circular A-87, Attachment B.8.h.6)

Cause:

The exceptions occurred because these employees are part of the Delaware Department of Justice and the Division of Child Support Enforcement does not have procedures established that require supervisor review and approval of time charged to the federal grants from employees outside of its department.

Effect:

Employees are recording unapproved payroll charges to the federal grant.

Questioned Costs:

There are no questioned costs related to this control finding.

Recommendation:

We recommend that DCSE enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort Certification. As the exceptions in finding were for employees who work for the DE Department of Justice (DOJ), we recommend that DCSE communicate to DOJ the need for supervisors to review and sign their employee time and effort certifications.

Views of Responsible Officials:

Regarding the exceptions noted in the Condition of this finding, we would like to provide the following observations and response.

- The noted time and effort certifications and/or time distributions tested were not properly approved by the employee's supervisor. These individuals work for and are directly supervised by the Delaware Department of Justice devoting 100% of their time providing legal services to the IV-D program. Although A-87 does not require the supervisor's signature – it is a good control measure to have a supervisory review/signature which will be communicated to the Delaware Department of Justice as a requirement. The work activities and costs reflected on the employees time certifications are allowable under the IV-D program.

Agency Contact Name: Charles Hayward

Agency Contact Phone Number: 302-395-6520

Corrective Action Plan:

DCSE will communicate to the Delaware Department of Justice that time and effort certifications must be signed by the employee's supervisor. The requirement will also be highlighted in the MOU with the Department of Justice.

Anticipated Completion Date:

Advise Delaware Department of Justice of supervisor signature requirement by March 21, 2014.

Reference Number:	2013-024
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Public Health
Federal Agency:	U.S. Department of Agriculture
Federal Program:	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC)
CFDA Number:	10.557
ARRA:	No
Compliance Requirement:	Cash Management
Control Finding:	Yes
Compliance Finding:	No
Scope Limitation:	No

Condition:

The Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) program utilizes a system query report, to download pending Accounts Receivable information from the State's general ledger, First State Financials (FSF), into a spreadsheet for the determination of the federal cash draws to be requested for the program.

There is a lack of segregation of duties within the program's federal draw down process, as the same WIC staff is responsible for executing the query, importing the query results into the spreadsheet, calculating the draw amounts, and performing the cash draw downs. For 7 out of 18 drawdowns tested, supervisory review was not completed prior to submission of request for payment. The 18 transactions sampled amounted to $3,687,601. The 7 exceptions amounted to $1,576,981 out of a total Federal cash drawdown population of $16,971,257.

Criteria:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements

Cause:

The program has designed the drawdown to be performed by the Fiscal Management Analyst III and reviewed by the Program Director. The Fiscal Management Analyst III responsible for preparing the drawdowns went on long term medical leave effective March 7, 2013 prior to his retirement on September 1, 2013. During this period, and while the Department is in the process of hiring his replacement, WIC's Program Director assumed this responsibility for both preparation and review.

Effect:

Without a management review control in place, the WIC program may not detect errors or non compliance with the CMIA Agreement or the terms of the grant agreements.

Questioned Costs:

No questioned costs, this is a control finding only.

Recommendation:

We recommend that WIC and DPH develop some program cross training to allow for proper segregation of duties when personnel turn-over occurs.

Views of Responsible Officials:

Agency Contact Name: Deborah Fisher

Agency Contact Phone Number: 302-744-4742

Corrective Action Plan:

In February 2013 (prior to the FY 2012 audit exit conference of March 29, 2013) DPH fully implemented enhancements to the management review procedure as a part of the control process. The cash management policy for WIC includes that in the event of staff absences, the central DPH fiscal office will be included in the draw review and approval process.

Anticipated Completion Date: Completed

Reference Number:	2013-025
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Public Health (DPH)
Federal Agency:	U.S. Department of Agriculture
Federal Program:	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC)
CFDA Number:	10.557
ARRA:	No
Compliance Requirement:	Food Instrument and Cash-Value Voucher Disposition
Control Finding:	Yes
Compliance Finding:	No
Scope Limitation:	No

Condition:

There was a lack of segregation of duties within the program's monthly reconciliation of the food vouchers redeemed to the bank account. The same WIC staff prepared and reviewed the report for 1 out of 2 reconciliations sampled. The vouchers redeemed on the 2 monthly reconciliations sampled summed to $1,245,159, and the vouchers redeemed on the monthly reconciliation with the exception totaled $629,525.

Criteria:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements

Cause:

The program has designed the reconciliation to be performed by the Fiscal Management Analyst III and reviewed by the Program Director. The Fiscal Management Analyst III responsible for preparing the monthly reconciliation went on long term medical leave effective March 7, 2013 prior to his retirement on September 1, 2013. During this period, and while the Department is in the process of hiring his replacement, WIC's Program Director assumed this responsibility for both preparation and review.

Effect:

Without a separate management review control in place, WIC may not be able to detect errors in the reconciliation process.

Questioned Costs:

There are no questioned costs, only a control finding.

Recommendation:

We recommend that the WIC program and DPH enhance its monthly food reconciliation procedures by designating an alternate preparer or reviewer to compensate for the retirement of the Fiscal Management Analyst III until a replacement is hired. This will ensure there is an adequate level of supervisory review and ensuring proper segregation of duties between the preparer and the reviewer.

Views of Responsible Officials:

Agency Contact Name: Deborah Fisher

Agency Contact Phone Number: 302-744-4742

Corrective Action Plan:

A Fiscal Management Analyst was hired effective 12/16/13 who is responsible for fiscal management and reporting for the WIC program. Additionally, a staff member in Support Services (DPH central office) has been identified to review and approve the monthly food reconciliation report for the WIC program in the event of a staff absence or shortage to ensure a separation of duties.

Anticipated Completion Date: Completed

Reference Number:	2013-026
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Public Health
Federal Agency:	U.S. Department of Agriculture
Federal Program:	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC)
CFDA Number:	10.557
ARRA:	No
Compliance Requirement:	Compliance Investigations of High-Risk Vendors
Control Finding:	Yes
Compliance Finding:	No
Scope Limitation:	No

Condition:

The Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) program performs investigations of at least 5% of the ninety-one vendors they consider to be high risk. Investigators conduct this investigation by ascertaining that these vendors sell products that are required by the program and are reasonably priced. During this investigation, Investigators complete the "Compliance Buys" report to document the procedures performed and the associated results. At the end of the investigation, the Investigators are required to sign this report.

We sampled 5 of the 10 investigations performed and found one where the investigator failed to sign the "Compliance Buys" report. The program personnel reviewing the reports did not detect this error.

Criteria:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Cause:

The Management Analyst III, who is in charge of overseeing the Investigators and monitoring the visits performed, failed to review all the completed "Compliance Buys" reports submitted by the Investigators.

Effect:

Without a management review completed, WIC may not detect or deter non-compliance, and WIC may continuously allow vendors to benefit from the program even though they are no longer in compliance with the federal requirements.

Questioned Costs:

There are no questioned costs as this exception is only a control observation.

Recommendation:

We recommend that WIC and the Division Public Health enhance its review process over the completion of the Compliance Buys report. WIC program personnel should ensure that the reports are completed properly and signed by the investigator at the conclusion of the each visit.

Views of Responsible Officials:

Agency Contact Name: Deborah Fisher

Agency Contact Phone Number: 302-744-4742

Corrective Action Plan:

The WIC vendor manager has instructed the investigator and reinforced that all compliance buy reports must be signed by the investigator prior to submission to the manager. All vendor compliance buy reports will be reviewed and approved by WIC vendor staff to ensure that the documentation is signed and complete. Unsigned compliance buy reports will be returned to the investigator for signature.

Anticipated Completion Date: Completed

Reference Number:	2013-027
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Public Health (DPH)
Federal Agency:	U.S. Department of Agriculture
Federal Program:	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC)
CFDA Number:	10.557
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	No
Scope Limitation:	No

Condition:

There is a lack of segregation of duties within the program's preparation of the monthly financial reports (Form FNS-798). The same WIC personnel is responsible for preparing and reviewing the report for 1 out of 2 monthly reports sampled. The FNS-798 report for the month of June 2013 was prepared, reviewed, and certified by the same Program Manager. Total federal outlay reported on the June 2013 report was $854,560 while the total federal outlay on the 2 reports tested was $1,726,053. Total expenditures reported for the 12 months were $15,114,720.

Criteria:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements

Cause:

The Fiscal Management Analyst III who is responsible in preparing the monthly financial report went on long term medical leave effective March 7, 2013 prior to his eventual retirement on September 1, 2013. During this period, and while the Department is in the process of hiring his replacement, WIC's Program Director assumed the responsibility for both preparation and review of the reports.

Effect:

Without a management review control in place, WIC may not detect or deter non-compliance, and WIC may not be able to detect all un-reconciled items in the financial report prior to submission to USDA, the Federal funding Agency.

Questioned Costs:

No question costs were identified, the reports were in agreement to the general ledger.

Recommendation:

We recommend that WIC and DPH develop some program cross training to allow for proper segregation of duties when personnel turn-over occurs.

Views of Responsible Officials:

Agency Contact Name: Deborah Fisher

Agency Contact Phone Number: 302-744-4742

Corrective Action Plan:

A Fiscal Management Analyst was hired effective 12/16/13 who is responsible for fiscal management and reporting for the WIC program. Additionally, a staff member in Support Services (DPH central office) has been identified to review and approve the monthly 798 report for the WIC program in the event of a staff absence or shortage to ensure a separation of duties.

Anticipated Completion Date: Completed

Reference Number:	2013-028
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Public Health (DPH)
Federal Agency:	U.S. Department of Agriculture
Federal Program:	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC)
CFDA Number:	10.557
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	No
Scope Limitation:	No

Condition:

Effective April 2013, the Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) Program replaced its old data system used for processing WIC information with a new system called WIC on the Web (WoW) which is hosted by a third party service provider. The WoW System is used to track participant eligibility as well as information on vouchers issued, redeemed, cancelled, and reissued.

The WIC program did not obtain or review a SOC I report from the third party provider. Additionally, upon inquiry, it was revealed that the third party service provider does not have a SOC I report for the period needed.

Criteria:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

When using a service provider for critical systems the COSO requirements regarding review and monitoring should be incorporated into an organization's internal controls. Part 6 of OMB's Compliance Supplements identifies the following elements of monitoring:

Monitoring is a process that assesses the quality of internal control performance over time.

- Follow up on irregularities and deficiencies to determine the cause.
- Internal quality control reviews performed.
- Management meets with program monitors, auditors, and reviewers to evaluate the condition of the program and controls.

Cause:

The exception occurred because DHSS does not currently have a formal policy to obtain and review SOC I reports over service providers integral to their systems.

Effect:

The IT general control weaknesses could result in inaccurate processing of data and unauthorized access to systems.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

DHSS and agencies supporting the systems utilized for WIC should implement adequate IT general controls to address the system weaknesses identified. Management should implement controls to:

1) Obtain and review SOC I reports of service providers integral to the system for exceptions, weaknesses and user considerations.

2) Work with DTI in the implementation of a formal policy to complete a review over system security.

Views of Responsible Officials:

Agency Contact Name: Joanne White, WIC Director

Agency Contact Phone Number: 302-741-2900

Corrective Action Plan:

It should be noted that this data system (WOW) is hosted and managed by the State of Maryland Department of Health and Mental Hygiene, WIC program. The State of Delaware is under contract with the State of Maryland (DPH/DHSS MOA 12-197) for the implementation and operation of the Delaware WIC on the Web (WOW) system.

Delaware WIC does recognize that even though the term SOC1 is not utilized in the current Maryland MOU, the items that comprise it, such as internal controls, monthly report, etc. are listed as specific in items in the DPH MOU No12-197 section G. G21 specifically states : "Submit a monthly status report that describes the operational capacities and projected limitations or modification to be made to the system. This summary shall include the potential need for software or hardware upgrades or additions to accommodate increased demands. The report shall also include updates on system modifications, results of security monitoring, system performance indicators, system issue and other activities. Therefore a revised MOU should not be required, instead a procedure to ensure Delaware is receiving all of the contracted items needs to be put in place.

RESOLUTION: Delaware is meeting with Maryland WIC and their contractor on March 11, 2014 to address this issue. At that time a process will be written with a schedule for report item delivery and individual contact information to ensure that items listed in the MOU are obtained in a timely manner.

Delaware will also proceed with the annual data audit for the 2013 timeframe if it is found that it has not yet been conducted for the period.

Anticipated Completion Date:

September 30, 2014

Reference Number: 2013-029
Related Prior Year Finding: N/A
State Department Name: Department of Health and Social Services
State Division Name (if applicable): Division of Public Health
Federal Agency: Centers for Disease Control and Prevention
Federal Program: Immunization Cluster
CFDA Number: 93.268 and S-93.712
ARRA: Yes
Compliance Requirement: Allowable Costs (Effort Reporting)
Control Finding: Yes
Compliance Finding: No
Scope Limitation: No

Condition:

Four out of twelve employees selected for testing submitted signed Time and Effort Certifications that were not approved and reviewed by a supervisor for multiple pay cycles, as listed below. The four employees charged $32,230 to the program out of our sample of $57,094. Total payroll expended by the program was $1,010,639. The distribution of the identified exceptions is reflected in the table below.

	Exceptions[1] (Quarter end)			
-	9/30/2012	12/31/2012	3/31/2013	6/30/2013
Employee # 1	Yes	Yes	Yes	Yes
Employee # 2	Yes	-[2]	-[2]	-[2]
Employee # 3	Yes	Yes	Yes	-[2]
Employee # 4	-[2]	Yes	-[2]	-[2]

[1] Submitted timesheets were not reviewed and approved by a supervisor.
[2] The employee charged time to the federal grant during this quarter but it was not included in sample.

Criteria:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The COSO framework for Internal control consists of five interrelated components. These are derived from the way management runs a business, and are integrated with the management process. Two of the control components are:

- Control Activities—Control policies and procedures must be established and executed to help ensure that the actions identified by management as necessary to address risks to achievement of the entity's objectives are effectively carried out.
- Monitoring—The entire process must be monitored, and modifications made as necessary. In this way, the system can react dynamically, changing as conditions warrant.

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled.
  (OMB Circular A-87, Attachment B.8.h.6)

Cause:

The exceptions occurred because the Division of Public Health does not have clearly communicated procedures that require supervisor review and approval of time charged to the Federal grants.

Effect:

Employees may be recording the incorrect payroll charges to the federal grant without supervisory review.

Questioned Costs:

There are no questioned costs associated with this control finding as payroll was documented in accordance with A-87 despite the lack of a supervisor's approval.

Recommendation:

We recommend that DPH enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort reports as well as enhancing its policies and procedures in preparation of the time and effort certification to ascertain compliance with the federal requirements.

Views of Responsible Officials:

Agency Contact Name: Dr. Martin Luta

Agency Contact Phone Number: 302-744-1050

Although A-87 does not require the supervisor's signature – it is a good control measure to have a supervisory review which will be incorporated into policy/procedures outlined in the corrective action. The work activities and costs reflected on the employee's time certifications was allowable under the Immunization program.

Corrective Action Plan:

A departmental policy on time and effort reporting is in the process of being formulated. This policy will be departmental in scope and once complete, it will be issued and disseminated departmentally. It will include the requirement, basis and importance of effort reporting, frequency and, where needed, to align/recode payroll charges to reflect effort as a required and ongoing process. It will also include the appropriate standards for monitoring/review of employee time/effort certifications by supervisors. Subsequently, training will be provided to departmental staffs completing effort reports as well as managers who supervise those staff.

Anticipated Completion Date:

Departmental policy formulation: March 31, 2014

Provision of training: By July 31, 2014

Reference Number:	2013-030
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Public Health
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Public Health and Emergency Preparedness
CFDA Number:	93.069
ARRA:	No
Compliance Requirement:	Allowable Costs (Effort Reporting)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

For twelve out of sixty-five payroll transactions sampled, either (i) the employee did not prepare Time and Effort certifications in a timely manner; or (ii) the Program was charged more than the employee certified in their time and effort certification and/or time distribution; or (iii) the Time and Effort certification was not prepared in accordance with A-87. The following exceptions were identified:

- Twelve (12) out of sixty-five payroll transactions tested sampled did not have the time and effort certification for the quarters or months requested. The time and effort certifications requested for the fiscal year ended June 30, 2013 were not completed until January 2014, when requested for audit. The amount charged to the grant was $16,592.
- Three (3) out of 65 payroll charges tested charged the program more than the employee certified in their time and effort certification and/or time study report. The total charged to the grant was $152.
- Eleven (11) out of 65 payroll charges tested show employees who work on multiple grant programs; however, effort reports were not completed at least on a monthly basis. The total charged to the grant was $16,139.

The amount charged to the program for these twelve exceptions payroll transactions was $16,592 out of our sample of $124,487. Total payroll expended for the program was $1,234,026.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work

on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Cause:

The exceptions occurred because the Time and Effort certification of the Laboratory Section employees and Information Resource Management (IRM) section employees are not included in the review procedures being performed by the PHEP's Administrative Specialist. This individual is responsible for matching all the certifications received to an employee list containing all current employees in order to ascertain completeness and timely preparation of the time and effort certifications.

Additionally, the Program's effort reporting policy is not appropriate for employees who work on multiple grant programs as A-87 requires those certifications to be done at least monthly and not quarterly.

Effect:

The Program is charging payroll incorrectly to the federal grant.

Questioned Costs:

Questioned costs related to unapproved, incorrect or inappropriate time and effort certifications in the sample are $16,592.

Recommendation:

We recommend that DPH enhance its policies and procedures in preparation of the time and effort certification to ensure compliance with the federal requirements. We recommend that DHSS establish policies and procedures that comply with OMB Circular A-87 and require the review and monitoring of both work and time and effort certifications submitted by employees from other DHSS Divisions. The effort reporting requirements should be communicated frequently to all employees and embedded in the training to communicate to all employees the policies, rules, and regulations related to effort reporting.

Views of Responsible Officials:

Agency Contact Name: Kevin F. Kelley, Sr. DMS Director
Agency Contact Phone Number: (302) 255-9088

Regarding the exceptions noted in the Condition of this finding, we would like to provide the following observations and response.

- Twelve (12) out of sixty-five payroll transactions tested sampled did not have the time and effort certification for the quarters or months requested. The time and effort certifications requested for the fiscal year ended June 30, 2013 were not completed until January 2014, when requested for audit. The amount charged to the grant was $16,592. One of the 12 exceptions was a DPH employee who unfortunately did not certify/complete an effort report timely which comprised $453.72 of the questioned costs. This employee performs biological/bioterrorism and chemical/chemical terrorism testing which, although the effort report was not timely, is an allowable cost under the PHEP grant. The 11 other individuals were IRM staff and we would like to point out that in this audit period completed daily effort reporting logs in an automated time tracking system. They reported their time by minutes in a day worked on a specific grant and/or program which was subsequently allocated based on time reported by pay cycle. If an initial payroll charge for a pay cycle did not reflect the time recorded/ reported, (A) an adjustment was calculated via a reconciliation process and (B) the charges corrected via Payroll Funding Adjustments (PFA) to reflect the work and time/effort reported. For these staff the resulting charges comprise $16,138.88 of the questioned costs and are inclusive of PFA adjustments processed to correct the charges to reflect the daily time recorded in the system devoted to supporting this grant program.
- Three (3) out of 65 payroll charges tested charged the program more than the employee certified in their time and effort certification and/or time study report. The total charged to the grant was $152. This overcharge will be recoded to State funding.
- Eleven (11) out of 65 payroll charges tested show employees who work on multiple grant programs; however, effort reports were not completed at least on a monthly basis. The total charged to the grant was $16,139. As mentioned above, the employees recorded their time and work activities on a daily basis into a time study system upon which the final adjusted payroll charges to the multiple activities (including the PHEP) were based. The costs are allowable under the PHEP program and were based upon actual time devoted to supporting the program.

Corrective Action Plan:

A departmental policy on time and effort reporting is in the process of being formulated. This policy will be departmental in scope and once complete, it will be issued and disseminated departmentally. It will include the requirement, basis and importance of effort reporting, frequency and, where needed, to align/recode payroll charges to reflect effort as a required and ongoing process. It will also include the appropriate standards for monitoring/review of employee time/effort certifications by supervisors. Subsequently, training will be provided to departmental staffs completing effort reports as well as managers who supervise those staff.

Additionally, EMSPS put a tracking system into place to ensure all Time and Effort reports are received from employees charged to the grant in a timely manner. This was corrected as of May 2013.

Anticipated Completion Date:

Departmental policy formulation: March 31, 2014

Provision of training: By July 31, 2014

Recoding to State funding: By June 30, 2014

Reference Number:	2013-031
Related Prior Year Finding:	12-32
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Employment and Training
Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act
CFDA Number:	17.258, 17.259, 17.278, 17.260
ARRA:	No
Compliance Requirement:	Eligibility
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The case files reviewed for the 2013 audit had the following exceptions:

- For 6 of the 65 ISS's reviewed, although the clients were determined to be eligible, there was no evidence of proper review by management. The amount of benefits extended to these clients in fiscal year 2013 was $8,165 while total benefits extended to the 65 clients sampled in our population were $103,527. Total benefits expended for WIA for the year was $3,309,258.
- For 1 of the 65 cases reviewed, although the file was reviewed by management, the client was incorrectly determined eligible as the client was a resident of Maryland.

Criteria:

1. Eligibility for Individuals

a. *All Programs*

Selective Service – No participant may be in violation of section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under that Act (29 USC 2939(h)).

b. *All Subtitle B Statewide and Local Programs*

(1) An adult must be 18 years of age or older.

(2) A dislocated worker means an individual who meets the definition in 29 USC 2801(9).

(3) A dislocated homemaker means an individual who meets the definition in 29 USC 2801(10).

(4) Before receiving training services, an adult or dislocated worker must have received at least one intensive service, been determined to be unable to obtain or retain employment through intensive services, and met all of the following requirements (20 CFR sections 663.240 and 663.310):

(a) Had an interview, evaluation, or assessment and determined to be in need of training services and have the skills and qualifications to successfully complete the selected training program.

(b) Selected a training service linked to the employment opportunities.

(c) Was unable to obtain grant assistance from other sources, including other Federal programs, to pay the costs of the training.

c. *Subtitle B Youth Activities*

A person is eligible to receive services under Youth Activities if they are between the ages of 14 and 21 at the time of enrollment (20 CFR section 664.200) and demonstrate at least one of the following barriers to employment: deficient in basic literacy skills; a school dropout; homeless; a runaway; a foster child; pregnant or parenting; offender; or an individual who requires additional assistance to complete an educational program, or to secure and hold employment (20 CFR sections 664.200, .205, and .210). See III.G.3.d.(2), "Matching, Level of Effort, Earmarking – Earmarking," for the requirement that at least 95 percent of eligible youth participants be disadvantaged low-income youth as defined in 29 USC 2801(25).

The Program's Policy is that all Individual Service Strategy (ISS) forms must be reviewed by management as evidence by a signature on the face of the document.

Per the Delaware Work Investment Board (DWIB) policies and procedures, clients receiving benefits must be residents of Delaware.

Cause:

The Division implemented new policies and procedures pertaining to management review of the ISS documents in the previous fiscal year. However, some counselors were utilizing outdated templates and had not implemented the changes during the current fiscal year. Additionally, WIA staff were using checklists to determine eligibility that did not match the DWIB policies and procedures manual regarding state of residence rules.

Effect:

Without proper supervisor review and checklists that agree to policies and procedures, claimants who were not eligible under WIA criteria may inappropriately receive benefits from the Program.

Questioned Costs:

There are no questioned costs as each of the exceptions missing evidence of management review were correctly determined to be eligible for WIA services. In addition, there were no expenditures for the client that was incorrectly determined to be eligible for WIA services.

Recommendation:

The WIA Program should continue to reinforce policies and procedures relating to management's review of ISS's, including the requirement of management's signature on the face of the ISS. WIA should also ensure that policies and procedures match the checklists utilized by the staff for eligibility determination.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

On the face of the ISS there is a line for the case manager to initial the ISS prior to submitting the document to the Supervisor. The initials verify the case manager has completed the necessary portions of the ISS and it is ready for the supervisor's review.
Effective March 13, 2014 program policy will be updated to require that the client and case manager signatures be obtained prior to the document being forwarded to the supervisor for signature. The revision ensures necessary signatures are being obtained in a sequential flow and it also eliminates an unnecessary trip to the office for the client.

Residency is a DWIB definition. The definition for Residency on Page 5 for Youth stipulates the exception. Every so often DOL/DET will take an existing definition and apply it to another program if it is deemed appropriate. The definition was implemented for our WIA Adult and Dislocated Worker programs through a Q&A format that is used for answering questions, or clarifying policies/procedures/definitions. If this action plan is not acceptable then DOL/DET will issue policy for WIA Adult and Dislocated Worker programs related to Residency.

Anticipated Completion Date:

March 13, 2014

Reference Number:	2013-032
Related Prior Year Finding:	12-33
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Employment and Training
Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act
CFDA Number:	17.258, 17.259, 17.278, 17.260
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Supporting documentation for the Federal Share of Expenditures of the ETA 9130 Federal Financial Reports was not maintained. Program staff pull First State Financial (FSF) queries and then make manual adjustments to calculate the accrual basis expenditures; however, the details of those adjustments are not kept. All reports for the quarters ended December 31, 2012 and June 30, 2013 were reviewed, totaling 45 reports.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Workforce Investment Act (WIA) program is required to report quarterly in 9130 Federal Financial Reports the expenditures incurred by the program, which should agree with the accounting records of the State.

Cause:

The WIA Program does not have policies and procedures in place to document the completeness and accuracy of the train of expenditures data from FSF for the accrual portion that is being reported in its 9130 reports.

Effect:

Failure to properly reconcile the queries of expenditure accruals can lead to errors in federal reports and total expenditures not being properly reported.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

The Program should consider reviewing the processes used to prepare reports by ensuring the original queries are saved and adding an additional reconciliation to ensure that the altered data reconciles to the general ledger in First State Financials (FSF).

Views of Responsible Officials:

DET did implement the recommendation from the FY12 audit and kept the original data downloaded directly from FSF as well as the file used to support the accrued expenditures. And both files were provided to the auditors on site as requested.

We do not agree that this should be a finding. However, we would accept this as a recommendation to improve and refine our current process.

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Auditor Response:

The Auditor acknowledges that we received the download from FSF and the file used to support the accrued expenditures. The Program, however, could not provide a sufficient audit trail between the original download from FSF and the amounts reported on the ETA 9130 Reports.

Reference Number:	2013-033
Related Prior Year Finding:	12-34
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Employment & Training
Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act
CFDA Number:	17.258, 17.259, 17.278, 17.260
ARRA:	No
Compliance Requirement:	Subrecipient Monitoring
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

For one subrecipient out of three subrecipients tested, WIA (the Program) did not retain evidence that the subrecipient's DUNS number was received prior to the award being given. The DUNS number was reported on the FFATA report submitted in July 2012; however, no evidence verifying the accuracy or the timing of the receipt of the DUNS number could be provided.

In addition, for the same subrecipient tested above, the Program did not request to see any prior A-133 Audit Reports before they were selected as subrecipients. The Program could not provide support that they had ensured the subrecipients had adequate processes and procedures in place to run proper programs for WIA services or that they had ensured there were no unresolved issues or findings in previous A-133 Audits that would affect the WIA Program. The total expenditures for this subrecipient during the fiscal year totaled $21,231.

The amount passed through to subrecipients in fiscal year 2013 was $1,408,246 and no WIA subrecipients received ARRA funding during the fiscal year. WIA had a total of 10 subrecipients, of which two were new to the Program. The total expended in fiscal year 2013 for the Program was $5,949,789.

Criteria:

Subrecipient Monitoring:

- *Determining Subrecipient Eligibility* – In addition to any programmatic eligibility criteria under E, "Eligibility for Subrecipients," for subawards made on or after October 1, 2010, determining whether an applicant for a non-ARRA subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 CFR section 25.110 and Appendix A to 2 CFR part 25).
- *Central Contractor Registration (CCR)* – **For ARRA subawards**, **identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a DUNS number, and maintaining the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)). This requirement pertains to the ability to report pursuant to Section 1512 of ARRA and is not a pre-award eligibility requirement.** Note that subrecipients of non-ARRA funds are not required to register in CCR prior to or after award.
- *Award Identification* – At the time of the subaward, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and

development; and name of Federal awarding agency) and applicable compliance requirements. For ARRA subawards, identifying to the subrecipient the amount of ARRA funds provided by the subaward and advising the subrecipient of the requirement to identify ARRA funds in the Schedule of Expenditures of Federal Awards (SEFA) and the SF-SAC (see also N, Special Tests and Provisions in this Part).

- *During-the-Award Monitoring* – Monitoring the subrecipients use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipients fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipients audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations..

Cause:

WIA implemented new subrecipient monitoring policies and procedures during the year but the policies and procedures did not encompass all compliance requirements.

Effect:

The Program did not perform effective subrecipient monitoring. The 10 subrecipients utilized during the fiscal year could potentially not be meeting federal requirements.

Questioned Costs:

There are no questioned costs.

Recommendation:

The WIA Program should ensure that they have adequate subrecipient monitoring procedures in place and are following them for all subrecipients monitored during the year. The Program should also ensure that when selecting subrecipients, they review support that the subrecipients are adequate to receive federal funding.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

In response to a recommendation from FY12, DET did revise the RFP, starting with PY13, to include a request for the DUNS number and added a statement in Appendix A to ensure that when selecting subrecipients, they review support that the subrecipients are adequate to receive federal funding.

Anticipated Completion Date: Completed

Reference Number:	2013-034
Related Prior Year Finding:	N/A
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Employment and Training
Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act
CFDA Number:	17.258, 17.259, 17.278, 17.260
ARRA:	No
Compliance Requirement:	Reporting - FFATA
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The program entered into contracts with their subrecipients at the beginning of July 2012 for State Fiscal Year Ended June 30, 2013 and submitted the required FFATA report under the Transparency Act. The report submitted in July 2012 encompassed all subrecipients that had signed contracts for the new State fiscal year and upon our review, we observed the following regarding the reporting process:

- The FFATA report was authorized and reviewed; however, the WIA Program could not provide supporting documentation for the DUNS number of one subrecipient.
- A subrecipient signed a contract in September 2012 for $25,261. However, no FFATA report was subsequently prepared and submitted for this subrecipient.

Criteria:

Based on review of Part IV of the 2013 A-113 Compliance Supplement and 2 CFR part 170, Transparency Act implementation was phased in for contracts based on their total dollar value. Based on the Federal Acquisition Regulation (FAR) interim final rule, Transparency Act reporting is required for:

- Starting March 1, 2011, any newly awarded subcontract of $25,000 or more must be reported if the value of the Federal prime contract award under which that subcontract was awarded was $25,000 or more.

In addition, compliance testing of the Transparency Act reporting requirements shall include the following key data elements about the first-tier subrecipients and subawards under grants and cooperative agreements:

Subawardee DUNS #	The subawardee organization's 9 digit Data Universal Numbering System (DUNS) number

The auditors must ensure that the key data elements were accurately reported and supported by the source documentation.

Cause:

The WIA Program reporting cycle results in the July FFATA report capturing most new subrecipient contracts for the new state fiscal year. However, the omitted contract was not signed until September and therefore outside the normal cycle. No secondary report was submitted.

With regards to the DUNS number issue, WIA Program personnel failed to retain appropriate documentation verifying the accuracy of the reported DUNS number.

Effect:

The Program is not completely and accurately reporting expenditures to subrecipients to the Federal government or ensuring they are verifying key data elements such as the DUNs number.

Questioned Costs:

There are no questioned costs as the $25,261 is supported by a signed contract. The subrecipient with the DUNS number that was not supported is only a reporting error.

Recommendation:

The Program should consider reviewing the processes used to prepare reports to ensure that contracts signed during the fiscal year are appropriately reported. In addition, measures should be taken to ensure that appropriate documentation is retained to verify the accuracy of reported information.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

The DET agrees to review the FFATA reporting semi-annually to insure all contracts are included in the report.

DET did revise the RFP, starting with PY13, to include a request for the DUNS number

Anticipated Completion Date: March 31, 2014

Reference Number:	2013-035
Related Prior Year Finding:	12-35
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Employment & Training
Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act
CFDA Number:	17.258, 17.259, 17.278, 17.260
ARRA:	No
Compliance Requirement:	Allowable Costs (Effort Reporting)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The payroll funding reconciliations used to reconcile the State's payroll system (PHRST) and WIA's internal time software (Autotime) were performed for all four quarters during the fiscal year. However, as of October 2013, the calculated adjustments to record actual time spent working on the grant for these quarters had not been recorded in the State's accounting system, First State Financials (FSF).

As a result of not recording payroll funding adjustments, 39 out of 40 payroll transactions tested were incorrect with the net effect of ($5,270). The total adjustment needed to reconcile all four quarters is ($3,444).

In addition, one of our 40 samples was an employee charging time for the National Emergency Grant which was incorrectly coded to the WIA Program. The total salary charged by this employee to the Program was $1,108.

The population of payroll transactions in fiscal year 2013 subject to testing was $1,530,926 while total expenditures for the program were $5,949,789.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Per Circular A-87, Item #8, Compensation for Personal Services, Section (3h) & (4e):

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the

standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non-Federal award,

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Cause:

The exceptions occurred because the WIA Program was in process of implementing new payroll policies and experience staff turnover during the fiscal year.

The Schedule of Expenditures of Federal Awards (SEFA) related to two awards for National Emergency Grant (NEG) were incorrectly coded to CFDA 17.260 when they should have been coded to CFDA 17.277 effective July 1, 2011. Therefore, a total of $397,627 in expenditures were incorrectly classified to the WIA cluster.

Effect:

The Program is not properly reporting payroll expenditures for the year ended June 30, 2013 since the PHRST data has not been updated for the adjustments needed during the year or for the correct time worked on the program's projects. The total amount of NEG expenditures incorrectly coded to the WIA grant in the SEFA was $397,627.

Questioned Costs:

There are no questioned costs for the PFA error as the federal grant was undercharged.

Recommendation:

The WIA Program should record payroll funding adjustments timely. The Program should also consider alternatives to processing payroll funding adjustments at the employee level, such as recording aggregate journal entries to correct the allocation on a quarterly basis.

Views of Responsible Officials:

The NEG expenditures were incorrectly identified as 17.260 in the FSF General Ledger, however, all expenditures were charged to the correct grant and correctly reported as such to USDOL.

The CFDA number does not affect our federal reporting or our expenditures because each grant is identified by a budget year, appropriation, project code and activity associated with the grant.

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DET agrees that the payroll adjustment needs to be made timely. We are currently training a new individual to perform this duty.

Anticipated Completion Date: June 30, 2014

Reference Number:	2013-036
Related Prior Year Finding:	12-33
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Employment and Training
Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act
CFDA Number:	17.258, 17.259, 17.278, 17.260
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The 9091 WIA Annual Report was authorized and marked as reviewed; however, the reported 'Rapid Response' expenditures could not be agreed to FSF expenditure detail. Reported 'Rapid Response' expenditures totaled $155,289; however, FSF indicated a total of $133,108 in expenditures resulting in an over-statement of $22,181.

The total expended in fiscal year 2013 for the program was $5,949,789.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Delaware Workforce Investment Act Program is required to file various reports related to its oversight and compliance over the federal funds it receives from the Department of Labor (DOL).

- *ETA-9091, WIA Annual Report (OMB Number 1205-0420)* – Sanctions related to State performance or failure to submit these reports timely can result in a total grant reduction of not more than five percent as provided in WIA Section 136 (g)(1)(B).

Reports must be complete, accurate, and prepared in accordance with the required accounting basis as well as trace to accounting records, supporting worksheets or other documentation that link reports to the data.

Cause:

The exception occurred because of staff turnover and an apparent mathematical error in the general ledger reconciliation that was not detected in the review process.

Effect:

The Program is not properly reporting expenditures to the Federal government, which could result in adjustments to future grants received from the U.S. Department of Labor.

Questioned Costs:

Although the underlying expenditures were not incurred, expenditures were over reported by $22,181.

Recommendation:

The Program should consider reviewing the process used to prepare the reports and adding a requirement to document the reconciliation to the general ledger for detailed review.

Views of Responsible Officials:

Accrued expenditures of $9,827.74 were included in the total reported bringing the total to $142,936. This reduces the overstatement to $12,353.

Although an error occurred on the WIA Annual 9091 report, we disagree that this amount constitutes questioned costs. These costs did not actually occur, and were not paid in error, they are overstated due to a calculation error on this report.

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DET will implement a dual review of the 9091 WIA Annual Report. Unfortunately, an error occurred overstating the expenditures for the Rapid Response section of the report.

Anticipated Completion Date: June 30, 2014

Reference Number:	2013-037
Related Prior Year Finding:	N/A
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Vocational Rehabilitation
Federal Agency:	Social Security Administration
Federal Program:	Disability Insurance/SSI Cluster
CFDA Number:	96.001
ARRA:	No
Compliance Requirement:	Cash Management
Control Finding:	Yes
Compliance Finding:	No
Scope Limitation:	No

Condition:

In 9 of the 10 drawdown's tested, there was no evidence of management review. Additionally, there is a lack of segregation of duties as the same Disability Determination Services (DDS) program staff is preparing the drawdown request and submitting the draw. Total drawdown's tested was $3,206,878 and total drawdown's per our population was $7,099,353.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Cause:

The program did not have adequate procedures in place for management's review of the drawdown. As a result of prior year single audit findings at the Department of Labor, DDS implemented revised procedures to document review in May 2013. KPMG found that drawdowns after this date included evidence of review by management.

Effect:

Without an independent management review control in place, DDS may request funds in a manner which is not in compliance with the CMIA, Subpart B, or the terms of the grant agreements.

Questioned Costs:

There are no questions costs as amounts agreed to underlying general ledger and were for actual expenditures.

Recommendation:

We recommend that DDS continue to implement its revised federal draw down procedures to ensure there is an adequate level of supervisory review of the drawdowns prior to submission to the federal agencies and to ensure proper segregation of duties over the cash management function.

Views of Responsible Officials:

Pursuant to a prior year single audit finding, DDS implemented a procedure to ensure the weekly federal drawdowns are independently reviewed prior to submission to ensure proper segregation.

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

Effective May 6, 2013, DDS updated and implemented a new procedure to ensure the weekly federal drawdowns are independently reviewed prior to submission and to ensure proper segregation of duties. The submission report is reviewed by the Senior Accountant, initialed and dated prior to the drawdown of funds.

Anticipated Completion Date: Fully Corrected

Reference Number:	2013-038
Related Prior Year Finding:	N/A
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Unemployment Insurance
Federal Agency:	U.S. Department of Labor
Federal Program:	Unemployment Insurance
CFDA Number:	17.225, S-17.225
ARRA:	Yes
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

We reviewed the 29 submitted ETA 9130 Federal Financial Reports for December 31, 2012 and June 30, 2013 and although all 29 reports were marked as reviewed by the appropriate individuals, three reports did not agree to the underlying general ledger, resulting in a $50,000 understatement of expenditures.

The program had $12,779,520 of FSF expenditures and $177,894,022 of Non-FSF expenditures, or expenditures that are not recorded in FSF and relate to benefit payments. Total expenditures were $190,673,542 during fiscal year 2013.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Unemployment Insurance (UI) program is required to report quarterly in 9130 Federal Financial Reports the expenditures incurred by the program, which should agree with the accounting records of the State.

Cause:

The review done by management is not detailed enough to detect reporting errors.

Effect:

The Program is not properly reporting expenditures to the Federal government, which could result in adjustments to future grants received from the U.S. Department of Labor.

Questioned Costs:

There are no questioned costs for the ETA 9130 Report as the errors resulted in understated expenditures of $50,000.

Recommendation:

The Program should consider reviewing the process used to prepare the reports and adding a requirement to document the reconciliation to the general ledger so a detail review can be completed.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

Effective 10-28-2013 procedures were put into place for reviewing ETA 9130 reports. A Senior Accountant in the UI Fiscal Unit completes the reports as required. A Senior Accountant in the UI Fiscal Unit then prints the completed reports and attaches all back-up documentation and puts the documents into the ETA 9130 reports packet. A Senior Accountant in the UI Fiscal Unit then forwards all the reports and back-up documentation to the Fiscal Administrative Officer [FAO] who reviews the reports and back-up documentation for completion and accuracy. The FAO signs off on each report in the ETA 9130 reports packet and submits all the documentation to the Management Analyst in the UI Fiscal Unit. The Management Analyst reviews all the reports and back-up documentation in the ETA 9130 reports packet. Once this review is completed, the Management Analyst signs off on each report and the back-up documentation and then returns the ETA 9130 reports packet to the FAO. The FAO certifies the reports in the DOL Grantee System. The FAO prints the certification page including it with the back-up documentation for each of the reports in the ETA 9130 reports packet.

Anticipated Completion Date:

The "Corrective Action Plan" described above was implemented on October 28, 2013.

Reference Number:	2013-039
Related Prior Year Finding:	N/A
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Unemployment Insurance
Federal Agency:	U.S. Department of Labor
Federal Program:	Unemployment Insurance
CFDA Number:	17.225, S-17.225
ARRA:	Yes
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The ETA 581 Contribution Operations Report for June 30, 2013, did not correctly calculate the receivables over 15 months, as required to be reported in Line 44. The receivables reported as $349,494 were overstated by $104,030. The error was identified by the management reviewer; however, the update was not made when the report was transmitted.

The program had $12,779,520 of FSF expenditures and $177,894,022 of benefit payments, for total expenditures of $190,673,542 during fiscal year 2013.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Unemployment Insurance (UI) program is required to report quarterly in ETA 581 Contribution Operations Reports on the volume of SWA work, performance in determining the taxable status of employers, and other information pertinent to the overall effectiveness of the tax program, which should agree with the accounting records of the State.

Cause:

While management did review the report and leave edits for the preparer, the staff did not update the report for the reviewer comments. The reviewer also should have looked at the report prior to submission to ensure all comments were corrected.

Effect:

The Program is not properly reporting program data to the Federal government.

Questioned Costs:

There are no questioned costs for the ETA 581 Report as the mathematical errors resulted an overstatement of receivables.

Recommendation:

The Program should require the reviewer to re-review the final report after all comments are cleared.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

A programming change was made to the Aging Receivables report to include the same time period as required by the U.S. DOL-ETA for the ETA 581 report. This programming change has eliminated the need to perform manual adjustments to the aging of receivables and will eliminate incorrect mathematical calculations.

Anticipated Completion Date:

The "Corrective Action Plan" described above was completed on October 22, 2013 and corrected the quarterly ETA 581 report in question as well as the ETA 581 report for the previous quarter. Revised ETA 581 reports were submitted to U.S. DOL-ETA on October 30, 2013.

Reference Number:	2013-040
Related Prior Year Finding:	N/A
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Unemployment Insurance
Federal Agency:	U.S. Department of Labor
Federal Program:	Unemployment Insurance
CFDA Number:	17.225, S-17.225
ARRA:	Yes
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Certain attributes/components of the ETA 227 Overpayment Detection/Recovery Reports for the quarters ended December 31, 2012 and June 30, 2013 could not be agreed to supporting documentation.

The following errors occurred on the original ETA 227 reports submitted as of December 31, 2012 and are summarized in the table below:

For Section A – *Overpayments Established: Causes*, the report submitted did not agree to system generated reporting schedules for UI High Dollar Fraud Overpayments (-$29,968 difference), UI High Dollar Non-Fraud Overpayments (-$45,579 difference) and UCFE/UCX High Dollar Fraud Overpayments ($4,950 difference).

For Section B – *Overpayments Established: Methods of Detection*, the report submitted did not agree to system generated reporting schedules for Non-Fraud Other ($912 difference) and Non-Fraud Non-Controllable Total (-$912 difference).

For Section C – *Recovery/Reconciliation*, the report submitted did not agree to system generated reporting schedules for UI Written Off (10,428 difference).

The following errors occurred on the original ETA 227 reports submitted as of June 30, 2013 and are summarized in the table below:

For Section B – *Overpayments Established: Methods of Detection*, the report submitted did not agree to system generated reporting schedules for Non-Fraud Wage/Benefit Crossmatch (-$1,370 difference), Non-Fraud National Directory of New Hires ($1,370 difference), and Non-Fraud Noncontrollable Total ($670 difference).

For Section C – *Recovery/Reconciliation*, the report submitted did not agree to system generated reporting schedules for Non-Fraud UCFE/UCX Cash ($1,157 difference), Non-Fraud UCFE/UCX Benefit Off-Set (-$2,196 difference), Non-Fraud EB Benefit Off-Set (-$2,196 difference), Non-Fraud UCFE/UCX State Income Tax Offset ($6,358 difference), Fraud UI Written-Off ($56,610 difference), Non-Fraud UI Written-off ($55,073 difference), and Non-Fraud UCFE/UCX Written-Off ($2,302 difference).

The following errors occurred on the original ETA 227 EUC 08 reports submitted as of June 30, 2013and are summarized in the table below:

For Section C – *Recovery/Reconciliation*, the report submitted did not agree to system generated reporting schedules for Non-Fraud UI Recovered-Total (-$125,298 difference) and Fraud UI Recovered-Total ($551 difference).

12/31/2012 - ETA 227 Overpayment Detection/Recovery

Reg/EUC08/TEUC	Section	Line	Amount per Transmitted Report	Amounts per System Support KPMG verified	$ Difference
Reg	A - UI	112	238,042.00	268,010.00	(29,968.00)
Reg	A - UCFE/UCX	112	-	4,950.00	(4,950.00)
Reg	A - UI	113	111,341.00	156,920.00	(45,579.00)
Reg	B - Non-Fraud	207	89,778.00	88,866.00	912.00
Reg	B - Non-Fraud	208	272,470.00	273,382.00	(912.00)
Reg	C - UI	309	50,746.00	40,318.00	10,428.00

6/30/2013 - ETA 227 Overpayment Detection/Recovery

Reg/EUC08/TEUC	Section	Line	Amount per Transmitted Report	Amounts per System Support KPMG verified	$ Difference
Reg	B - Non-Fraud	208	409,004.00	408,334.00	670.00
Reg	B - Non-Fraud	202	194,866.00	196,236.00	(1,370.00)
Reg	B - Non-Fraud	210	107,899.00	106,529.00	1,370.00
Reg	C - UCFE/UCX	303	3,374.00	2,217.00	1,157.00
Reg	C - UCFE/UCX	304	3,531.00	673.00	2,858.00
Reg	C - EB	304	1,155.00	3,351.00	(2,196.00)
Reg	C - UCFE/UCX	305	7,268.00	910.00	6,358.00
Reg	C - UI Fraud	309	78,516.00	21,906.00	56,610.00

Reg	C - UI Non-Fraud	309	83,058.00	27,985.00	55,073.00
Reg	C - UCFE/UCX	309	2,302.00	-	2,302.00
EUC08	C - UI Non-Fraud	303	73767	79045	(5,278.00)
EUC08	C - UI Non-Fraud	304	39544	156734	(117,190.00)
EUC08	C - UI Non-Fraud	305	39544	42374	(2,830.00)
EUC08	C - UI Fraud	307	551	0	551.00

The program had $12,779,520 of FSF expenditures and $177,894,022 of benefit expenditures, for total expenditures of $190,673,542 during fiscal year 2013.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Unemployment Insurance Program is required to file various reports related to its oversight and compliance over the Federal funds it receives from the Department of Labor including:

> *ETA 227*, *Overpayment Detection and Recovery Activities (OMB No. 1205-0173)* – Quarterly report on results of SWA activities in principal detection areas of benefit payment control (ET Handbook 401).

Reports must be complete, accurate, and prepared in accordance with the required accounting basis as well as trace to accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards.

Cause:

The person who is responsible for preparing the reports was unable to perform their duties and new personnel completed the reports. The errors were not detected by the reviewer.

Effect:

The Program is not properly reporting detailed information regarding overpayments, which could result in adjustments to future grants received from the U.S. Department of Labor.

Questioned Costs:

There were no questioned costs as the reporting is information about the activities of the UC department, not the program related expenditures reimbursed by the grant.

Recommendation:

The Program should develop a more detailed review process before sign-off and submission of the reports, including agreement to supporting documentation.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

12/31/2012 ETA 227 Report:

High Fraud/Non Fraud Dollar amounts:

The procedure in place is: An Accountant in the BPC Unit prepares the report; the BPC Manager reviews the report for accuracy, the BPC Manager then forwards the report to the Management Analyst II for transmission of the data. On January 27, 2014 an additional procedure was implemented. Specifically, when the transmission of the report is completed the Management Analyst II sends the BPC Manager a copy of the transmitted report, so the BPC Manager or the Accountant can ensure the data that was prepared was transmitted properly.

NOTE: A corrected report was transmitted to U.S. DOL-ETA on 10-24-2013.

Lines 207 and 208: The titles on the ETA 227 report for this section were labeled incorrectly, although the totals for this section were correct-- $912.00 was put in an incorrect category. We are currently in the process of updating the report format so all the correct titles appear on each page of the report.

Line 309: This particular cell had an incorrect formula and it was pulling the data from an incorrect spot. This has been corrected and the data was retransmitted to U.S. DOL-ETA on 10-24-2013.

6/30/2013 ETA 227 Report:

Currently, the BPC Unit is following the established procedures for the retrieving data for the ETA 227 report. The report is being worked on daily by the Accountant and reviewed by the BPC Manager and then reviewed again after transmission is complete to ensure accuracy.

On 11-14-13 the BPC Manager contacted the IT unit and requested assistance in revising the collection of the data from the system. The changes include titles, categories and layout of the data collection to have our data collection mirror the ETA 227 report. The most identifiable issue with the collection of the data is detailing all the transactions that can occur during a quarter. Once we have this report in alignment with the ETA 227 report it will better enable us to control the report.

Note: A corrected report was transmitted to the U.S. DOL-ETA for all categories on 10-24-13.

Anticipated Completion Date:

Dates of those items in the corrective action plan that have been completed are indicated in the "Corrective Action Plan" above. Those not completed are projected to be completed within six months.

Reference Number:	2013-041
Related Prior Year Finding:	N/A
State Department Name:	Department of Transportation
State Division Name (if applicable):	Department of Transportation
Federal Agency:	U.S. Department of Transportation
Federal Program:	Federal Transit Cluster
CFDA Number:	20.500; 20.507; S-20.507
ARRA:	Yes
Compliance Requirement:	Reporting (1512 Reporting)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Based on our review, we found there was no evidence of independent preparation and review of the 1512 Report required to be submitted for the quarter ended March 31, 2013. The same individual creates and submits the reports with no subsequent independent review. This control weakness resulted in the following errors with our sample of one 1512 report: for the one active ARRA grant during the year, the vendor payment schedules per the report did not agree to FSF accounting system detail resulting in an understatement of $59,475 out of $16,108,944 in expenditure per the report.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Delaware OMB 1512 Reporting Instruction Manual states ―Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as ―instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity.

A significant reporting error is defined as ―instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will my misled or confused by the recipient report in question. ―The Prime recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report.

The Delaware OMB 1512 Reporting Instruction Manual states ―Data quality (i.e. accuracy, completeness and timely reporting of information) reviews required by the OMB June 22 Guidance are intended to avoid two key data problems – material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted.

Subrecipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and subrecipients should establish internal controls to ensure completeness, accuracy, and timely reporting of all amounts funded by the Recovery Act.

The Compliance Supplement also states that compliance testing of the ARRA reporting requirements shall include only the following key data elements of the 1512 reporting: Recipient Data Elements: Award Number, Award Amount, Total Federal Amount ARRA Funds Received/Invoiced, and Total Federal Amount of ARRA Expenditures.

Cause:

The exceptions occurred because there is no segregation of duties between the person creating and submitting the reports and the person reviewing the reports. As such, errors were not discovered.

Effect:

The Program is not properly reporting expenditures to the Federal government, which could result in adjustments to future grants received from the U.S. Department of Transportation.

Questioned Costs:

There are no questioned costs for the 1512 reports as the errors resulted in understated expenditures of $59,475 for grant award DE-96-X001.

Recommendation:

The Program should assign a Program staff person to review the data entered prior to submission. Additionally, KPMG suggests a reconciliation from FSF to the 1512 Reports that ensures the 1512 Reports' accuracy as well as agreement to FSF.

Views of Responsible Officials:

Agency Contact Name: James Hoagland
Agency Contact Phone Number: 302-760-2036

Corrective Action Plan:

Current internal procedures have since been refined, and will be reviewed again. The Controller recommends the Contract Administration add a reviewer to their process to ensure that another staff member is added to the process to validate the data provided by the contractors is accurate. Finance will also validate the financial data provided prior to submission.

Anticipated Completion Date:

April 30, 2014

Reference Number:	2013-042
Related Prior Year Finding:	12-37
State Department Name:	Department of Transportation
State Division Name (if applicable):	Department of Transportation
Federal Agency:	U.S. Department of Transportation
Federal Program:	Federal Transit Cluster
CFDA Number:	20.500; 20.507; S-20.507
ARRA:	Yes
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

We found that 6 of the 6 SF-425 Federal Financial Reports selected for testing agreed to the supporting documentation provided; however, the supporting documentation could not be reconciled back to the State's financial accounting system, First State Financials (FSF). The reported federal share of the expenditures was $1,689,455 for the 6 reports, but the amount recorded in FSF cannot be determined.

The total population of SF-425 reports subject to testing reported expenditures of $20,088,064 and FSF has $24,258,411 of expenditures.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Federal Financial Report (FFR) (SF-425/SF-425A (OMB No. 0348-0061)) should be used by recipients as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10c). References to this report include its applicability as both an expenditure and a cash status report unless otherwise indicated. The Federal Transit Cluster program is required to report expenditures incurred by the program quarterly in SF-425 Federal Financial Reports.

Cause:

The Program was in the process of updating their reporting policy and procedures to correct previous year findings. We note that FTC on a monthly basis, downloads expenditure data into excel, and then it is manually adjusted, by a Delaware Department of Transportation (DelDOT) Information and Technology personnel, to identify the expenditures relating to the Federal Transit Cluster program (FTC). We were unable to observe any evidence of review of the process, or evidence of any Federal expenditure reconciliations prepared by management to ensure the modified reports were complete and accurate. The Department of Transportation does not have policies or procedures in place to document the completeness and accuracy of the trail of expenditure data from FSF to what is being reported in its SF-425 reports.

Effect:

Failure to properly document the bridge of expenditure information reported can lead to errors in federal reports and incomplete data for a supervisory review.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the Department continue to implement the updated policies and procedures such as reconciliations and proper review and approval of the information being reported in SF-425 reports. We recommend that management also additionally consider restructuring FSF coding to enable direct reporting from FSF.

Views of Responsible Officials:

Agency Contact Name: Earle Timpson
Agency Contact Phone Number: 302-760-2678

Corrective Action Plan:

Regarding the capture of the FSF expenditures and the ability to reconcile the data to the SF-425 reports the following actions have been implemented. Programming staff have updated their policies and procedures for collecting and manipulating the month end data from FSF. Once all the queries are run the files are saved to record a month-end record. These files are then forwarded to Finance staff to be used for reporting and reconciliation. Additionally, the finding references a variance in SF-425 expenditures versus FSF expenditures. The variance of $4+ million is created because of accrued unbilled and not a reconciliation problem. Several projects were funded with yet to be approved grants. This is possible due to "Pre-award authority".

Anticipated Completion Date:

October 2013

Reference Number:	2013-043
Related Prior Year Finding:	N/A
State Department Name:	Department of Transportation
State Division Name (if applicable):	Department of Transportation
Federal Agency:	U.S. Department of Transportation
Federal Program:	Federal Transit Cluster
CFDA Number:	20.500; 20.507; S-20.507
ARRA:	Yes
Compliance Requirement:	Subrecipient Monitoring
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The Department's subrecipient monitoring procedures have the following weaknesses:

- There was no evidence of the Program receiving and reviewing the OMB Circular A-133 reports for 2 subrecipients during the year. While both A-133 reports had findings reported, only one of the subrecipient's A-133 report had findings contributed to this Program. Because the A-133 reports were not obtained, there was no follow up on the corrective action plans for the findings related to this Program.
- The Program incurred $9,202,370 in project costs for one subrecipient and $6,906,217 in project costs for the other. Total Program costs during the year were $24,258,411.

Criteria:

Control Exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance Exceptions:

When a subrecipient is given award money from the pass through entity, the pass through entity must ensure that they have properly identified to the subrecipient the terms of the award, that they must comply with federal requirements, ensure they are effectively monitoring the subrecipient, and that the subrecipient is conducting an audit every year if expending more than $500,000 of federal funds. A Pass Through Entity is responsible for:

Subrecipient Audits – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued

inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Cause:

Program management did not fully understand the distinction between a vendor and a subrecipient because the Department typically contracts with only vendors. Management believed the 2 subrecipients to be vendors and monitored them during the year as vendors.

Effect:

The Program did not properly monitor its subrecipients, which could result in problems with subrecipients going undetected by the Department.

Questioned Costs:

There are no questioned costs as the 2 subrecipients were monitored throughout the year; however, OMB Circular A-133 reports were not obtained. Single Audits were obtained after the fact from the entities and, although there were findings related to the Program for one of the subrecipients, no questioned costs were reported for the program.

Recommendation:

We recommend that the Program put procedures in place to ensure that they effectively identify subrecipients during the year and accurately monitor them during the award including obtaining the OMB Circular A-133 audit reports and following up on any issues reported.

Views of Responsible Officials:

Agency Contact Name: Earle Timpson
Agency Contact Phone Number: 302-760-2678

Corrective Action Plan:

DelDOT/DTC has revised their procedures to include the requirement that we obtain a copy of a Subrecipients annual audit when that subrecipient incurs expenditures of more than $500,000 of federal funds in a given year. Subsequent to DTC being made aware of this requirement they obtained information from both Amtrak and SEPTA and forwarded it to KPMG for their files. The SEPTA audit information was forwarded on September 30, 2013 and the Amtrak September 20, 2013. We assume this information was sufficient as DTC has not received any additional requests for documentation.

Anticipated Completion Date:

October 2013

Reference Number:	2013-044
Related Prior Year Finding:	N/A
State Department Name:	Department of Transportation
State Division Name (if applicable):	Department of Transportation
Federal Agency:	U.S. Department of Transportation
Federal Program:	Federal Transit Cluster
CFDA Number:	20.500; 20.507; S-20.507
ARRA:	Yes
Compliance Requirement:	FFATA Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The Program had one subrecipient during the year that received Non-ARRA funding, however no Federal Funding Accountability and Transparency Act (FFATA) Report was submitted. The Program attempted to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) but was unable to register. The Program could not provide sufficient evidence that they attempted to resolve the issue so that they could submit the required report. As such, the Program did not demonstrate a good faith effort to comply with FFATA requirements. Total expenditures for the subrecipient totaled $9,202,370.

Criteria:

Control Exceptions:

The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance Exceptions:

Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting. The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts.

As provided in 2 CFR part 170 and FAR Subpart 4.14, respectively, Federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act. Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. They first are required to register in Central Contractor Registration (CCR) (if they have not done so previously for another purpose, e.g., submission of applications through Grants.gov) and actively maintain that registration.

Reporting requirements shall include the following key data elements about the first-tier subrecipients and subawards under grants and cooperative agreements: subaward date, Subawardee DUNS number, amount of subaward, Subaward Obligation/Action Date, Date of Report Submission, and Subaward Number.

Cause:

Program management was unable to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) as a prime awardee and no support could be provided that they attempted to resolve the issue.

Effect:

The Program is not completely and accurately reporting expenditures to subrecipients to the Federal government.

Questioned Costs:

There are no questioned costs.

Recommendation:

The Program should enhance their policy for FFATA reporting to ensure reports are being properly submitted and they maintain evidence of resolving issues in trying to submit the reports.

Views of Responsible Officials:

Agency Contact Name: Earle Timpson
Agency Contact Phone Number: 302-760-2678

Corrective Action Plan:

The FY2013 Audit identified Finding 13-DOT-05 with respect to FFATA Reporting. Since then DelDOT has been able to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) as a prime awardee. We have begun the process of entering historical data into the system to identify reimbursements to the subrecipients associated with specific grants. In some instances the subrecipient needs to obtain a DUNS number. We also encountered a problem where the award date to the Prime Awardee (DelDOT) was later than the award date to the subrecipient. DelDOT contacted the Federal Help Desk and FTA Region 3 for guidance. Eventually the Help Desk advised that we could enter a date later than to award date to the subrecipient. We anticipate that all the required prior data will be entered into FSRS by the end of the second quarter.

Anticipated Completion Date:

June 2014

Reference Number:	2013-045
Related Prior Year Finding:	N/A
State Department Name:	Department of Transportation
State Division Name (if applicable):	Department of Transportation
Federal Agency:	U.S. Department of Transportation
Federal Program:	Highway Planning and Construction
CFDA Number:	20.205; S-20.205; 20.219
ARRA:	Yes
Compliance Requirement:	Reporting (1512 Reporting)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Of the 34 reports required to be submitted for the quarter ending March 31, 2013, we found no evidence of independent review on six of those 1512 Reports. The same individual creates and submits the reports with no subsequent independent review performed which resulted in the following errors in our sample:

- For award number N056038, the "Total Federal Amount of ARRA Expenditure" per the 1512 report does not agree to the First State Financials (FSF) accounting system detail, resulting in a $103,409 understatement of reported expenditures. In addition, the vendor supporting payment schedules also did not agree to FSF accounting system detail as of March 31, 2013, resulting in an understatement of $622,575 of reported expenditures.

- For award K007007, the vendor supporting payment schedules did not agree to FSF accounting system detail as of March 31, 2013, resulting in a $56,877 understatement of reported expenditures.

Total expenditures reported on the 34 reports were $102,867,069 while total expenditures for the six reports we reviewed totaled $47,340,044.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Delaware OMB 1512 Reporting Instruction Manual states ―Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as ―instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity.

A significant reporting error is defined as ―instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will my misled or confused by the

recipient report in question. ―The Prime recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report.

The Delaware OMB 1512 Reporting Instruction Manual states ―Data quality (i.e. accuracy, completeness and timely reporting of information) reviews required by the OMB June 22 Guidance are intended to avoid two key data problems – material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted.

Subrecipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and subrecipients should establish internal controls to ensure completeness, accuracy, and timely reporting of all amounts funded by the Recovery Act.

The Compliance Supplement also states that compliance testing of the ARRA reporting requirements shall include only the following key data elements of the 1512 reporting: Recipient Data Elements: Award Number, Award Amount, Total Federal Amount ARRA Funds Received/Invoiced, and Total Federal Amount of ARRA Expenditures.

Cause:

The exceptions occurred because there is no segregation of duties between the preparation, submission, and review of the reports. As such, these errors were not discovered by a subsequent independent reviewer.

Effect:

The Program is not properly reporting expenditures to the Federal government, which could result in adjustments to future grants received from the U.S. Department of Transportation.

Questioned Costs:

There are no questioned costs for the 1512 reports as the errors resulted in understated expenditures of $103,409 for grant award N056038 and $56,877 for grant award K007007.

Recommendation:

The Program should assign a Program staff person to review the data entered prior to submission. Additionally, KPMG suggests a reconciliation from FSF to the 1512 Reports that both ensures the 1512 Reports' accuracy as well as agrees the total amounts to FSF.

Views of Responsible Officials:

This is a minor report timing error on continuing projects that can be corrected at any time per the 1512 reporting process. This does not appear to be a significant finding. *The discrepancies were caused by a difference in timing of reports between FHWA and Delaware Accounting System (FSF). These discrepancies have been identified and noted. Financial duties are segregated as they related to supplying the expenditures to the Contract Administration Section. Multiple people supply information and reconcile it between the two systems. The information is then reviewed and entered on a spreadsheet and submitted to Contract Administration. Contract Administration then enters the information onto the 1512 report and adds contractor information. Contract Administration then submits the 1512 report to FHWA. The contractor information was originally supplied by the contractors and then reviewed by Project Managers.*

Agency Contact Name: *Edited by Beverly Swiger* – Originally reported by James Hoagland

Agency Contact Phone Number: 760-2036

Corrective Action Plan:

Current internal procedures have refined, and will be reviewed again. *There is currently only one project remaining that contains ARRA funding. This project is expected to spend through August 2014. We anticipate that this timing issue may still occur until these funds are fully expended.*

Anticipated Completion Date:

August 30, 2014

Reference Number:	2013-046
Related Prior Year Finding:	N/A
State Department Name:	Department of Natural Resources and Environmental Control (DNREC)
State Division Name (if applicable):	Division of Water Resources, Financial Assistance Branch (FAB)
Federal Agency:	U.S. Environmental Protection Agency
Federal Program:	Capitalization Grants for Clean Water State Revolving Funds
CFDA Number:	66.458
ARRA:	No
Compliance Requirement:	Special Tests and Provisions (Fund Establishment, Loan Repayments, Fund Earnings, and Uses of Funds)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The Program had 18 loans entering repayment status in State Fiscal Year2013. For two loans, totaling $1,791,872, of the three loans tested, DNREC did not send notifications of "due dates" for the first loan repayments to subrecipients in a timely manner. As a result, payments did not begin within a year of the project completion date listed in the loan agreement. The 18 loans entering repayment status amounted to $48,754,158 while the three loans examined totaled $2,070,884.

In addition, DNREC did not have an effective control in place to ensure compliance with the federal requirements as management's review of the signed agreement and loan activity did not deter or detect noncompliance.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Repayment of loans shall begin within one year after project completion, and loans shall be fully amortized over not more than 20 years after project completion (40 CFR sections 35.3110(b) and 35.3120(a) and the policy statement titled *Transfer and Cross-Collateralization of Clean Water Revolving Funds and Drinking Water State Revolving Funds* published in the October 13, 2000, *Federal Register* (65 FR 60940)).

Effect:

DNREC was unable to ensure that repayment of loans started within one year after project completion.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

DNREC should implement a tracking system at the time of loan closing that allows management to determine when a letter regarding first repayment should be submitted so that the payments are made timely.

Views of Responsible Officials:

DNREC's Financial Assistance Branch (FAB) acknowledges that the construction completion date as stated in the General Obligation Bond is "projected" and therefore subject to adjustment. However, the Financing agreements state a date of completion for projects in section 2.1(m) of each agreement. Section 3.4 of those agreements, Agreement to Accomplish Project, states that the Borrower will complete the project by the date set forth in Section 2.1(m) and, as worded, is not subject to adjustment. Amortized payments were started within one year of the actual construction completion date as required by the 40 CFR sections 35.3110(b) and 35.3120(a) and the policy statement titled Transfer and Cross-Collateralization of Clean Water Revolving Funds and Drinking Water State Revolving Funds published in the October 13, 2000, Federal Register (65 FR 60940), but not within one year of the completion date as established in the Financing Agreement of the loan closing documents.

Agency Contact Name:

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Agency Contact Phone Number:
(302) 739-9941

Corrective Action Plan:

FAB has reviewed the wording in the loan closing documents with the law firm Saul Ewing responsible for the preparation of those documents. Saul Ewing and DNREC will work together to revise those documents for all future loans to clarify the determination of the construction completion date and establish procedures for amending those documents to modify that date if justification is provided by the borrower and approved by FAB.

FAB is also in the process of replacing our current loan servicing software program FABTrac with the program Enable which will include the ability for FAB to provide dates in the program for certain project milestones, including stated project completion dates, and Enable will advise both the engineering and financial sections of FAB if those dates are approaching so that the progress towards those milestones will be reviewed and appropriate corrective action can be taken if necessary.

Anticipated Completion Date:

FAB is already in discussions with Saul Ewing and necessary changes in the wording of the loan closing documents will be incorporated in all future loan agreements.

The Enable program is in the final design phases and is projected to be operational by July 1, 2014.

MATRIX OF FINDINGS BY FEDERAL AGENCY

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Matrix of Findings by Federal Agency

Year ended June 30, 2013

Matrix of Findings by Federal Agency

Finding	USDA	DOI	DOL	DOT	EPA	ED	HHS	SSA
Prefix	**10**	**15**	**17**	**20**	**66**	**84**	**93**	**96**
2013-001						X		
2013-002						X		
2013-003						X		
2013-004						X		
2013-005						X		
2013-006						X		
2013-007						X		
2013-008						X		
2013-009						X		
2013-010						X		
2013-011						X		
2013-012						X		
2013-013	X						X	
2013-014	X						X	
2013-015							X	
2013-016							X	
2013-017							X	
2013-018							X	
2013-019							X	
2013-020	X							
2013-021							X	
2013-022							X	
2013-023							X	
2013-024	X							
2013-025	X							
2013-026	X							
2013-027	X							
2013-028							X	
2013-029	X							
2013-030							X	
2013-031			X					
2013-032			X					
2013-033			X					

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Matrix of Findings by Federal Agency

Year ended June 30, 2013

Finding	USDA	DOI	DOL	DOT	EPA	ED	HHS	SSA
Prefix	**10**	**15**	**17**	**20**	**66**	**84**	**93**	**96**
2013-034			X					
2013-035			X					
2013-036			X					
2013-037								X
2013-038			X					
2013-039			X					
2013-040			X					
2013-041				X				
2013-042				X		X		
2013-043				X				
2013-044				X				
2013-045				X				
2013-046					X			

STATE OF DELAWARE

Summary Status of Prior Year Findings

Year ended June 30, 2013

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Agency	**U.S. Department of Education** **Delaware Technical and Community College** **Terry Campus**
Fiscal Year	**2012**
Reference Number	**12-1**
Related Prior Year Findings	**11-DTCC-01**
Program Name (CFDA No.)	**Special Tests and Provisions (Borrower Data Transmission and Reconciliation (Direct Loans))**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Special Tests and Provisions (Borrower Data Transmission and Reconciliation (Direct Loans))**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: Institutions must report all loan disbursements and submit required records to the DLSS via the Common Origination and Disbursement (COD) within 30 days of disbursement (*OMB No. 1845-0021*). Each month, the COD provides institutions with a SAS data file which consists of a Cash Summary, Cash Detail, and Loan Detail Records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month (34 CFR sections 685.102(b), 685.301 and 303).
Condition	The following is considered to be both a control and compliance exception. In connection with our test work over the Direct Loan program, we found that the Terry campus had not been performing and documenting monthly reconciliations for the campus' Direct Loan information based upon the School Account Statements (SAS) received from Direct Loan Servicing System (DLSS) prior to April 2012. The related expenditures for fiscal year 2012 are detailed in the table below. SFA Cluster

	Dollar Amount
Total Terry Campus Direct Loan Expenditures	$2,516,832
Total Terry Campus SFA Expenditures, including Direct Loans	8,437,972
Total DTCC Direct Loan Expenditures (all campuses)	8,486,901
Total DTCC SFA Expenditures, including Direct Loans (all campuses)	32,405,503

Cause	Fiscal year 2011 was the first year for the Direct Loan program at Delaware Technical and Community College, but the Terry campus did not receive monthly SAS data files until April 2012 when they became aware of the need to reconcile the SAS statements to the campus' financial records.
Effect	Direct Loan disbursements may be improperly recorded until April 2012 since a monthly reconciliation was not performed.

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Recommendation	We recommend the College continue its policy and procedure to ensure the SAS data file is being reconciled on a monthly basis and ensure that evidence of those reconciliations is maintained.
Questioned Costs	There are no known questioned costs associated with this finding since the campus' financial records were cumulatively reconciled as of June 30, 2012.
Agency Contact Name	***Jennifer Grunden, Terry Campus, Student Financial Aid Officer***
Agency Contact Phone Number	***(302) 857-1042***
Corrective Action Plan	Delaware Technical Community College Terry Campus has performed the monthly SAS reconciliation of the Direct Loan program since April 2012. Both electronic and paper SAS records/reconciliations have been retained.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Completed
Anticipated Completion Date (if not Fully corrected).	N/A

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Agency	**Department of Education** **Brandywine School District** **Christina School District** **Caesar Rodney School District** **Delmar School District** **Laurel School District** **Milford School District** **Red Clay Consolidated School District** **Sussex Tech School District** **Woodbridge School District**
Fiscal Year	**2012**
Reference Number	**12-2**
Related Prior Year Findings	**11-ED-01**
Related 2013 Finding	**2013-002**
Program Name (CFDA No.)	**Title I Grants to Local Educational Agencies (84.010, S-84.389)** **Improving Teacher Quality State Grants (84.367)** **Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)** **State Fiscal Stabilization Fund, Race-to-the-Top Incentive Grants, Recovery Act (S-84.395)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Allowable Costs (Effort Reporting)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

	Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5) Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including: ☐ The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results. ☐ The entire time period being sampled. ☐ The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)
Condition	The following are considered to be both control and compliance exceptions: *Brandywine School District* Based on a sample of 30 payroll expenditures totaling $108,868, five employees charged $35,562 to the Title I program, two employees charged $3,456 to the Improving Teacher Quality program, nine employees charged $23,058 to the Special Education program, and two employees charged $6,299 to the Race-to-the- Top program, but were missing time and effort reports. In addition, two employees' charges totaling $2,358 to the Race-to-the-Top program did not agree to the percentages approved on their time and effort reports by a net difference of $173. Furthermore, five employees charging $10,622 to Improving Teacher Quality program and two employees charging $8,033 to Race-to-the-Top program did not have semi-annual certifications completed on a timely basis. *Christina School District* Based on a sample of 31 payroll expenditures totaling $149,121, one employee charged $13,527 to the Improving Teacher Quality program and five employees charged $31,939 to the Special Education program, but were missing time and effort reports. *Caesar Rodney School District* Based on a sample of 17 payroll expenditures totaling $32,697, four employees charged $7,023 to the Special Education program, but were missing time and effort reports. The time and effort report for one employee charging $2,012 to the Title I program did not illustrate the allocation of the remaining percentage of that employee's time for that particular pay period. *Laurel School District* Based on a sample of nine payroll expenditures totaling $21,786, all nine items had exceptions as follows; four employees charged $10,320 to the Title I program, three

employees charged $6,232 to the Improving Teacher Quality program, one employee charged $2,596 to the Special Education program, and one employee charged $2,638 to the Race-to-the-Top program, but were missing time and effort reports.

Milford School District
Based on a sample of eight payroll expenditures totaling $32,928, two employees' charges totaling $17,945 to the Title I program did not agree to the percentages approved on their time and effort reports. The net difference for those two employees totaled $12,848.

Red Clay Consolidated School District
Based on a sample of 60 payroll expenditures totaling $203,236, four employees' charges totaling $12,615 to the Improving Teacher Quality program did not agree to the percentages approved on their time and effort reports. The net difference for those four employees totaled $36.

Sussex Tech School District
Based on a sample of two payroll expenditures totaling $3,476, two employees charged $3,476 to the Race-to-the-Top program, but were missing time and effort reports.

Woodbridge School District
Based on a sample of six payroll expenditures totaling $19,435, all six items had exceptions as follows; one employee charged $9,291 to the Title I program, one employee charged $1,756 to the Improving Teacher Quality program and four employees charged $8,388 to the Race-to-the-Top program, but were missing time and effort reports.

A summary of the major programs with payroll control and compliance exceptions are summarized below:

Title I Cluster

	# of Items	***Dollar Amount of Items***
Total Payroll Expenditures	*48,365*	*$29,558,490*
Total Nonpayroll Expenditures	*9,398*	*15,944,124*
Total Program Expenditures	*57,763*	*46,110,587*
Payroll Sample	*65*	291,777
Payroll Control Exceptions	*12*	68,021
Payroll Compliance Exception:	*12*	68,021

Improving Teacher Quality

	# of Items	***Dollar Amount of Items***
Total Payroll Expenditures	23,955	$10,231,071
Total Nonpayroll Expenditures:	1,951	2,640,005
Total Program Expenditures	25,906	13,129,615
Payroll Sample	*65*	194,484
Payroll Control Exceptions	*11*	11 25,007
Payroll Compliance Exception:	*11*	11 25,007

Special Education Cluster

	# of Items	*Dollar Amount of Items*
Total Payroll Expenditures	55,949	$24,571,530
Total Nonpayroll Expenditures:	*12,950*	17,274,629
Total Program Expenditures	*68,889*	41,824,882
Payroll Sample	*65*	198,681
Payroll Control Exceptions	*19*	64,616
Payroll Compliance Exception:	*19*	64,616

State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants

	# of Items	*Dollar Amount of Items*
Total Payroll Expenditures	*20,777*	*$11,487,985*
Total Nonpayroll Expenditures:	*3,389*	15,047,588
Total Program Expenditures	*24,166*	*26,535,573*
Payroll Sample	*65*	*182,227*
Payroll Control Exceptions	*9*	*20,974*
Payroll Compliance Exception:	*9*	*20,974*

Cause	The State Department of Education and the school districts cited above did not maintain proper and timely effort reporting for employees funded by federal programs.
Effect	Salary and related costs allocated to the federal programs are not appropriately supported by semi-annual certifications or properly prepared time and effort reports.
Recommendation	We recommend that the State Department of Education and the above school districts maintain properly prepared and signed personnel activity reports (effort reports) for all employees who work on multiple programs or obtain semi-annual certifications for employees that have been solely engaged in activities supported by one funding source.
Questioned Costs	Known questioned costs amounted to a $12,848 overcharge to the Title I program, a $36 overcharge to the Improving Teacher Quality program, and a $173 overcharge to the Race to the Top program. The following charges were missing time and effort reports: $55,173 for the Title I program, $24,971 for the Improving Teacher Quality program, $64,616 for the Special Education program, and $20,801 for the Race-to-the-Top program. In addition, a charge of $2,012 for the Title I program was missing a 100% allocation of the employee's time for that pay period and five employees totaling $10,622 charged to Improving Teacher Quality program and two employees totaling $8,033 charged to Race-to-the-Top program did not have semi-annual certifications completed on a timely basis.
Agency Contact Name	***Eulinda DiPietro***
Agency Contact Phone Number	***(302) 735-4016***
Corrective Action Plan	Delaware Department of Education will provide technical assistance to all Business Managers during a regularly scheduled quarterly meeting. Additionally, individual technical assistance will be provided to the school districts with findings. Delaware Department of

	Education convened a program manager's workgroup in December 2012 to respond to cross cutting issues for the Department and to promote quality improvement. The workgroup brings together program and financial staff and meets every quarter. The focus of the February 2013 meeting was on the current monitoring tools for LEAs and whether modifications need to be made to ensure LEAs are meeting the time and effort requirements.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Technical assistance was provided to LEAs on February 11, 2013 and May 17, 2013. Supporting reference material for time and effort reporting was also provided. The DOE workgroup has continued to meet to modify monitoring tools for all federal programs
Anticipated Completion Date (if not Fully corrected).	Expected to be fully completed across all LEAs as of July 1, 2013.

Agency	**U.S. Department of Education**
Fiscal Year	**2012**
Reference Number	**12-3**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Improving Teacher Quality State Grants (84.367)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Allowable Costs**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: The Improving Teacher Quality State Grant may be used for a broad span of activities designed to improve teacher quality that are identified in Section 2123(a) of the ESEA. Examples of allowable activities include: (1) providing "professional development" (as the term is defined in Section 9101(34) of the ESEA, 20 USC 6602(34)) to teachers, and, where appropriate, to principals and paraprofessionals in content knowledge and classroom practice; (2) developing and implementing a wide variety of strategies and activities to recruit, hire, and retain highly qualified teachers and principals; (3) developing and implementing initiatives to promote retention of highly qualified teachers and principals; (4) carrying out professional development programs to assist principals and superintendents in becoming outstanding managers and educational leaders; and (5) carrying out teacher advancement initiatives that promote professional growth and emphasize multiple career paths and pay differentiation, and establish programs and activities related to exemplary teachers. LEAs also may use funds to hire teachers to reduce class size (Sections 2101 and 2123(a) of the ESEA (20 USC 6601 and 6623(a))). In addition, to be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1): a. Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.) b. Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.) c. Be authorized or not prohibited under State or local laws or regulations. d. Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items. e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as

	a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost. g. Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87. h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation. i. Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.) j. Be adequately documented.
Condition	The following are considered to be both control and compliance exceptions. Based on a sample of 65 nonpayroll transactions totaling $1,488,306, we found six transactions totaling $60,800 that were approved, but we considered questionable for the Improving Teacher Quality program since the costs consisted of computers, tablets or data service center fees. **Improving Teacher Quality**

	# of Items	$ Dollar Amount of Items
Total Payroll Expenditures	23,955	10,231,071
Total Nonpayroll Expenditures	1,951	2,640,005
Total Program Expenditures	25,906	13,129,615
Nonpayroll Sample	65	1,488,306
Nonpayroll Control Exceptions	6	60,800
Nonpayroll Compliance Exception	6	60,800

Cause	Certain districts do not appear be aware that computer related costs are unallowable under the Improving Teacher Quality program.
Effect	Costs are being charged to the federal program that are not allowable.
Recommendation	We recommend that the Delaware Department of Education reinforce what costs are allowable under the Improving Teacher Quality program and ensure that proper approvals and appropriate supporting documentation is maintained for such costs.
Questioned Costs	The questioned costs for the Improving Teacher Quality program sample amounted to $60,800.
Agency Contact Name	***Wendy Modzelewski***
Agency Contact Phone Number	***(302) 857-3312***
Corrective Action Plan	The Title II Part A Improving Teacher Quality grant has experienced significant program staff turnover at Delaware Department of Education. Turnover and inconsistent documentation for subgrant changes are potential contributors to this finding. Delaware Department of Education has convened a program manager's workgroup comprised of financial and program staff who meets every quarter. During the February 2013 meeting, members of the workgroup discussed the necessity of having an electronic or hard copy of all amendments and budget adjustments that accompany a LEAs subgrant. Additionally, the new program manager will provide clarification to LEAs regarding allowable costs in relation to professional development and technology during the consolidated grant trainings scheduled in April 2013. Technical assistance will be also provided on an as needed basis as

	consolidated grants are reviewed.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DOE Program Managers were trained on the consolidated application process on 2/26/2013 and 3/4/2013 to clarify roles and expectations. Webinar and regional trainings were held for LEAs on April 11th, April 18th, April 25th and April 30th.
Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Department of Education, U.S. Department of Agriculture**
Fiscal Year	**2012**
Reference Number	**12-4**
Related Prior Year Findings	**11-ED-03**
Related 2013 Findings	**2013-005**
Program Name (CFDA No.)	**Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)** **Child and Adult Care Food Program (10.558)** **Title I Grants to Local Educational Agencies (84.010, S-84.389)** **Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)** **Improving Teacher Quality State Grants (84.367)** **State Fiscal Stabilization Fund Cluster (S-84.394)** **State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act (S-84.395)** **Education Jobs Fund (S-84.410)**
Type of Finding	**Scope Limitation, Significant Deficiency**
Compliance Requirement(s)	**Cash Management**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 *et seq.),* require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures of Treasury Subpart B of 31 CFR part 205 (Subpart B). We noted that of the major federal programs identified above, all but the State Fiscal Stabilization Fund Cluster and the State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants are subject to the CMIA. Those two federal programs are required to be in compliance with Subpart B cash draw down procedures.
Condition	The following is considered to be the compliance exception and scope limitation as documented in the tables below. Until mid-October of 2011, the Department of Education's draw down information could not be reconciled to First State Financials (FSF), the State's general ledger. The spreadsheet files of the original draw down queries were maintained by DOE as supporting documentation, but the information on these files could not readily be traced back to FSF. Based on a sample of $113,806,475 across all the major programs cited above, we found that 13 draws amounting to $25,071,179 across all the major programs could not be reconciled to FSF because they were drawn prior to October 19, 2011, when a new system query was implemented.

The following is considered to be a control exception as documented in the tables below. While the supervisor was reviewing the system query for drawdowns before they were executed, the review did not include a review of the query being reconciled to FSF, the State's general ledger, until mid-October of 2011.

The tables below represent the scope of items examined and the associated results (the compliance items refer to a scope limitation as they were unable to be tested for compliance):

Child Nutrition Cluster& Child and Adult Care Food Program (programs drawn together as part of a USDA block grant):

	# of Items	***Dollar Amount of Items***
Program Expenditures		$54,799,836
Draw Population	47	54,916,456
Sample	13	51,562,426
Control Exception	1	2,350,283
Compliance Exception	1	2,350,283

Title I Program

	# of Items	***Dollar Amount of Items***
Program Expenditures		$46,110,587
Draw Population	25	25,641,721
Sample	8	15,217,206
Control Exception	2	5,723,690
Compliance Exception	2	5,723,690

Improving Teacher Quality Program

	# of Items	***Dollar Amount of Items***
Program Expenditures		$13,129,615
Draw Population	22	13,277,690
Sample	8	4,839,550
Control Exception	2	1,958,077
Compliance Exception	2	1,958,077

Special Education Cluster

	# of Items	***Dollar Amount of Items***
Program Expenditures		$41,824,882
Draw Population	24	44,026,508
Sample	8	11,095,539
Control Exception	2	3,952,026
Compliance Exception	2	3,952,026

State Fiscal Stabilization Fund

	# of Items	***Dollar Amount of Items***
Program Expenditures		$11,018,968
Draw Population	12	14,886,965
Sample	5	3,915,774

Control Exception	2	2,122,099
Compliance Exception	2	2,122,099

State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants

	# of Items	***Dollar Amount of Items***
Program Expenditures		$26,535,573
Draw Population	20	27,981,540
Sample	8	15,326,155
Control Exception	2	4,691,901
Compliance Exception	2	4,691,901

Education Jobs Fund

	# of Items	***Dollar Amount of Items***
Program Expenditures		$18,927,208
Draw Population	21	19,824,437
Sample	8	11,849,825
Control Exception	2	4,273,103
Compliance Exception	2	4,273,103

Cause	DOE utilized a preliminary system query to obtain the required information, but did not maintain original query results to reconcile to FSF. Beginning in mid-October of 2011, a new system inquiry was provided to the DOE which could be traced back to FSF.
Effect	We were unable to determine whether the exceptions cited above were in accordance with their applicable compliance requirements, either the CMIA or the Treasury's Subpart B since we were unable to reconcile the drawdown to FSF and verify when the expenditures were recorded.
Recommendation	As begun in October of 2011, the DOE should continue to ensure its federal draw down process has an adequate level of support for determining that drawdowns are in accordance with each programs compliance requirements. The support should include how the drawdown information can be traced to FSF.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Eulinda DiPietro***
Agency Contact Phone Number	***(302) 735-4016***
Corrective Action Plan	This issue has been resolved. Prior to 10-17-2011 Delaware Department of Education was using a less preferred query to determine outstanding account receivables. After 10-17-2011, another query was identified as the most appropriate source of information for determining outstanding account receivables. The AR Pending query has been used since after 10-17-2011.
Finding Status	Fully Corrected. ☐ Not Corrected or Partially Corrected. ☒ Action taken different than original Corrective Action Plan. ☐ No longer warranting further action. ☐

Description of Status	While the proper query was utilized after 10/17/2011, another issue arose with the application of deposits against the outstanding receivables in October 2012. The issue was fixed by Oracle in November 2012.
Anticipated Completion Date (if not Fully corrected).	Resolved as of 12/1/2012

Agency	**Department of Education** **Colonial School District** **Indian River School District**
Fiscal Year	**2012**
Reference Number	**12-5**
Related Prior Year Findings	**11-ED-04**
Program Name (CFDA No.)	**Title I Grants to Local Educational Agencies (84.010, S-84.389)** **Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)** **Improving Teacher Quality State Grants (84.367)**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Level of Effort (Maintenance of Effort)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. A Local Educational Agency (LEA) may receive funds under an applicable program only if the State Educational Agency (SEA) finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from State and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waived by U.S. Department of Education. An LEA's expenditures from State and local funds for free public education include expenditures for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities. They do not include the following expenditures: (a) any expenditure for community services, capital outlay, debt service and supplementary expenses as a result of a Presidentially declared disaster and (b) any expenditure made from funds provided by the Federal government. If an LEA fails to maintain fiscal effort, the SEA must reduce the amount of the allocation of funds under an applicable program in any fiscal year in the exact proportion by which the LEA fails to maintain effort by falling below 90 percent of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the LEA) (Section 9521 of ESEA (20 USC 7901); 34 CFR section 299.5).
Condition	The following is considered to be a control exception. There appears to be a lack of independent review of the pre-populated maintenance of effort (MOE) amounts in the Consolidated Grant Applications for the school districts because for the eight school districts we tested, we found that the MOE calculation for Colonial and Indian River school districts included 2009 and 2008 financial information instead of 2010 and 2009 financial information. Since the Consolidated Grant Application we reviewed was for the 2011-2012 school year, the MOE calculation should have at least contained the school districts' financial information for fiscal years 2010 and 2009. A comparison of the most recent available financial information is necessary to determine whether the school districts are

	meeting their MOE requirements as described in the Criteria section below.
Cause	The State Department of Education and school districts have not developed documentation and review procedures to ensure the pre-populated data input from the State Department of Education's information technology personnel and incorporated into the LEAs MOE calculation are independently reviewed for accuracy.
Effect	Recalculating the MOE for the Colonial and Indian River school districts using the appropriate financial data indicated that both districts met the MOE requirements; however, if such calculations are not monitored closely any shortfalls may not be identified and addressed on a timely basis.
Recommendation	We continue to recommend that the Delaware Department of Education reinforce how the MOE template should be completed and develop procedures to ensure that the school districts' MOE calculations have been completed accurately.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	***Eulinda DiPietro***
Agency Contact Phone Number	***(302) 735-4016***
Corrective Action Plan	Delaware Department of Education program, fiscal and technical staff has met to determine several strategies for ensuring accurate and appropriate data is reflected in the consolidated applications. Prior to data being uploaded to Educations Success Planning and Evaluation System (ESPES), finance, program and technical staff will review the MOE data from two different sources. Once the data is confirmed as accurate, the information will be uploaded to ESPES. The Consolidated Grant Application Coordinator will review the data in ESPES and compare to the data provided by the Business Office. The Federal Funds Manager will engage in the same process as a check.
Finding Status	Fully Corrected. ☐ Not Corrected or Partially Corrected. ☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Before MOE data is loaded in ESPES, two technical staff members who work in separate work groups review and then compare the MOE data they have calculated independently. Once the data is loaded in ESPES, the consolidated grant coordinator then reviews the data in ESPES. The Education Associate for Federal Funds then engages in the same process as a check.
Anticipated Completion Date (if not Fully corrected).	June 30, 2013

Agency	**US Department of Education**
Fiscal Year	**2012**
Reference Number	**12-6**
Related Prior Year Findings	**11-ED-06**
Program Name (CFDA No.)	**Title I Grants to Local Educational Agencies – ARRA (S-84.389)** **Special Education Cluster – ARRA (S-84.391, S-84.392)** **State Fiscal Stabilization Fund Cluster (S-84.394)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Special Tests and Provisions for Awards with ARRA Funding** **(Separate Accountability for ARRA Funding)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: As provided in 2 CFR section 176.210, Federal agencies require recipients to (1) agree to maintain records that identify adequately the source and application of ARRA awards; (2) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, Catalogue of Federal Domestic Assistance (CFDA) number, and the amount of ARRA funds; and (3) provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC.
Condition	The following is considered a control exception. There is no reconciliation of the Department of Education's Schedule of Federal Expenditures (SEFA) by Catalogue of Federal Domestic Assistance (CFDA) number to those major programs identified in the First State Financials (FSF) by appropriation number. The following is considered a compliance exception. In connection with our review of the ARRA and regular program expenditures for the major programs being tested, we reconciled amounts in the SEFA to the Department of Education's general ledger as well as the Federal Recovery Act website. We found that some of the Department of Education's ARRA funds were incorrectly classified to the wrong CFDA number and other program expenditures were incorrectly included in the major program expenditures. For the year ended June 30, 2012, expenditures of $4,545,061 and $35,348 originally included in the Title I ARRA CFDA should have been included in the State Fiscal Stabilization Fund Cluster and the Special Education Cluster – ARRA, respectively and $570,528 and $255,832 included as Title I and Improving Teacher Quality, respectively, should have been included in other non-major federal programs.
Cause	The exception occurred because the information used to extract the CFDA is not properly linked to the appropriation data so a portion of the ARRA and other program funds went to the incorrect CFDA numbers within FSF.
Effect	The State's SEFA needs to be adjusted to reflect the proper amount of federal expenditures to the correct CFDA number.

Recommendation	We continue to recommend that the State's SEFA be reconciled back to grant allocations on an annual basis to ensure all ARRA and other program funds have been properly reflected on the SEFA.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	***Eulinda DiPietro***
Agency Contact Phone Number	***(302) 735-4016***
Corrective Action Plan	Delaware Department of Education finance staff will review current grants and their associated CFDA numbers to verify and/or correct any erroneous entries. For FY 2013 grants, staff inputting grant related information in First State Financials used a grant template containing CFDA numbers that were reviewed prior and after populating the template.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Fully corrected
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Education** **Woodbridge School District**
Fiscal Year	**2012**
Reference Number	**12-7**
Related Prior Year Findings	**11-ED-08**
Related 2013 Findings	**2013-007**
Program Name (CFDA No.)	**Improving Teacher Quality State Grants (84.367)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Special Test and Provisions (Participation of Private School Children)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: For programs funded under Title I, Part A (CFDA 84.010), a Local Educational Agency (LEA), after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families. Eligible private school children are those who reside in a participating public school attendance area and have educational needs under section 1115(b) of ESEA (20 U.S.C. 6315(b)). For all other programs, an SEA, LEA, or any other educational service agency (or consortium of such agencies) receiving financial assistance under an applicable program must provide eligible private school children and their teachers or other educational personnel with equitable services or other benefits under the program. Before an agency or consortium makes any decision that affects the opportunity of eligible private school children, teachers, and other educational personnel to participate, the agency or consortium must engage in timely and meaningful consultation with private school officials. Expenditures for services and benefits to eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the expenditures for participating public school children and their teachers and other educational personnel, taking into account the number and educational needs of the children, teachers and other educational personnel to be served (Sections 5142 and 9501 of ESEA (20 USC 7217a and 7881); 34 CFR sections 299.6 through 299.9).
Condition	The following is considered a control exception. The State Department of Education provides a list of all private schools in a school district's attendance area that should be sent letters of intent to access federal funding. However, there is no mechanism in place to verify that all the school districts properly sent those letters of intent for all relevant programs. The following is considered a compliance exception. Based on our testwork to verify the school districts sent letters of intent for federal funding to each private school within its

	attendance area, we found that letters were sent to solicit Title I participation for all 40 schools tested, but letters regarding the Improving Teacher Quality program were not sent for four out of 40 schools.
Cause	School district personnel were not aware of the federal requirements or the Delaware Department of Education's policy to ensure that all private schools receive letters regarding participation for all eligible federal programs.
Effect	Some private schools did not receive letters of intent for certain federal programs for which they may be eligible to receive funding.
Recommendation	We recommend that the school district personnel be properly trained by the Delaware Department of Education to ensure the districts fulfill the federal requirements pertaining to the participation of services for private school children for all federal programs available to them.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	***Wendy Modzelewski***
Agency Contact Phone Number	***(302) 857-3312***
Corrective Action Plan	Resources regarding equitable services were distributed to LEAs in January 2013. Additionally, Delaware Department of Education program staff will provide technical assistance regarding this finding during the Consolidated Grant Application training for LEAs in April 2013. Delaware Department of Education program staff will review this component during regularly scheduled monitoring visits with LEAs.
Finding Status	Fully Corrected. ☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	LEAs were provided resources regarding equitable services in January 2013 and again during the consolidated application training on April 11, April 18, April 25 and April 30, 2013.
Anticipated Completion Date (if not Fully corrected).	July 1, 2013

STATE OF DELAWARE
Summary Status of Prior Year Findings
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Agency	**Department of Education**
Fiscal Year	**2012**
Reference Number	**12-8**
Related Prior Year Findings	
Program Name (CFDA No.)	**Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Special Test and Provisions (Access to Federal Funds for New or Significantly Expanded Charter Schools)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: An SEA must ensure that a charter school LEA that opens for the first time or significantly expands its enrollment receives the funds under each covered program for which it is eligible. Significant expansion of enrollment means a substantial increase in the number of students attending a charter school due to a significant event that is unlikely to occur on a regular basis, such as the addition of one or more grades or educational programs in major curriculum areas. The term also includes any other expansion of enrollment that an SEA determines to be significant. Title V, Part B, Subpart 1 of ESEA (Section 5210(1) of ESEA (20 USC 7221i(1))) An SEA must determine a new or expanding charter school LEA's eligibility based on actual enrollment or other eligibility data available on or after the date the charter school LEA opens or significantly expands. An SEA may not deny funding to a new or expanding charter school LEA due to the lack of prior-year data, even if eligibility and allocation amounts for other LEAs are based on prior-year data. An SEA may allocate funds to, or reserve funds for, an eligible charter school LEA based on reasonable estimates of projected enrollment at the charter school LEA. If an SEA allocates more or fewer funds to a charter school LEA than the amount for which the charter school LEA is eligible, based on actual enrollment or eligibility data, the SEA must make appropriate adjustments to the amount of funds allocated to the charter school LEA as well as to other LEAs under a covered program on or before the date the SEA allocates funds to LEAs for the succeeding academic year.
Condition	The following is considered to be a compliance exception. We found three charter schools that opened during fiscal year 2012 were not included in the Special Education's allocation of funds prepared by the Delaware Department of Education (DOE). The State program manager requested discretionary funding for the new charters, but no documentation supports that the Special Education allocation amongst all school districts and charters was properly and equitably calculated. The following is considered to be a control exception. While the Special Education cluster allocation was prepared, the review control did not detect the error.

	Total Special Education Funding Allocated by this process is $29,945,560.
Cause	While the State Department of Education recognized that three new charters were opened during the year because it did have sufficient enrollment information for those charters, the State program manager requested discretionary funds that could be allocated to them instead of including them within the overall Special Education allocation.
Effect	The new charter schools may not have received all the federal funding they were entitled to.
Recommendation	We recommend that the DOE ensure that all new charters or those that expand significantly be included in the overall allocation for all federal programs. The allocation can be based on estimated data from the new charters which can be adjusted as actual figures are received.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Eulinda DiPietro***
Agency Contact Phone Number	***(302) 735-4016***
Corrective Action Plan	The federal grant allocation process for new charters or those that expand significantly was revised and now adheres to the Non-Regulatory Guidance 34 CFR Part 76, Subpart H.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Fully corrected
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Education**
Fiscal Year	**2012**
Reference Number	**12-9**
Related Prior Year Findings	**11-ED-09**
Related 2013 Findings	**2013-009**
Program Name (CFDA No.)	**Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Level of Effort (Maintenance of Effort)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: **SEA – LEVEL OF EFFORT** A State may not reduce the amount of State financial support for special education and related services for children with disabilities (or State financial support otherwise made available because of the excess costs of educating those children) below the amount of State financial support provided for the preceding fiscal year. The Secretary reduces the allocation of funds under 20 USC 1411 for any fiscal year following the fiscal year in which the State fails to comply with this requirement by the amount by which the State failed to meet the requirement. If, for any fiscal year, a State fails to meet the State-level maintenance of effort requirement (or is granted a waiver from this requirement), the financial support required of the State in future years for maintenance of effort must be the amount that would have been required in the absence of that failure (or waiver) and not the reduced level of the State's support (20 USC 1412(a)(18); 34 CFR section 300.163). **LEA – LEVEL OF EFFORT** Individual Disability Education Act (IDEA), Part B funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of State and local funds, expended for this purpose by the LEA in the prior fiscal year. Allowances may be made for: (a) the voluntary departure, by retirement or otherwise, or departure for just cause, of special education personnel; (b) a decrease in the enrollment of children with disabilities; (c) the termination of the obligation of the agency, consistent with this part, to provide a program of special education to a particular child with a disability that is an exceptionally costly program, as determined by

	the State Educational Agency (SEA), because the child has left the jurisdiction of the agency, has reached the age at which the obligation of the agency to provide a free appropriate public education (FAPE) has terminated or no longer needs such program of special education; (d) the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities; or (e) the assumption of costs by the high cost fund operated by the SEA under 34 CFR section 300.704 (20 USC 1413(a)(2); 34 CFR sections 300.203 and 300.204).
Condition	The following is considered to be a control and compliance exception. The State Department of Education (DOE) did not maintain an approved copy of the State's MOE calculation for the year ended June 30, 2012. The following is considered to be a compliance exception. Based on a review of the LEA MOE calculations (referred to as the Excess Cost for IDEA template in the Consolidated Grant Applications), which compares the combination of state and local expenditures for Special Education for the most recent available fiscal years, we found that for the eight school districts selected for testing, six districts had state and local expenditure amounts for Special Education that had decreased from 2009 to 2010. While most of the districts included a brief description for the decrease in their respective Consolidated Grant Application, we did not obtain evidence that the rationale was substantiated by the DOE or was an acceptable allowance.

	Total State and Local Funds Expended for Special Education in 2010	***Total State and Local Funds Expended for Special Education in 2009***	***Decrease***
Caesar Rodney SD	$28,423,731	29,505,688	(1,081,957)
Capital SD	31,115,119	31,531,570	(416,451)
Christina SD	79,077,847	79,834,413	(756,566)
Colonial SD	30,627,972	32,401,540	(1,773,568)
Red Clay SD	41,070,288	41,440,575	(370,287)
Seaford SD	13,410,661	13,810,661	(400,000)

Cause	The State Department of Education is not maintaining its MOE calculation. In addition, the Excess Cost calculations for the Special Education program included in the Consolidated Grant Applications are not being substantively reviewed.
Effect	The State or the school districts may not have met their Special Education MOE requirements, which could impact the amount of IDEA funds that should be available and allocated.
Recommendation	We recommend that the State MOE calculation for Special Education be stored in a central repository at the State Department of Education to ensure its availability even if personnel turnover occurs. We also recommend that the DOE carefully review the school districts Excess Cost calculations included within the Consolidated Grant Applications. Furthermore, when the school districts have a decrease in the Excess Cost calculation, the DOE should validate the rationale for the decrease and then make allocation adjustments, as necessary.
Questioned Costs	Questioned costs are not determinable.

STATE OF DELAWARE
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Agency Contact Name	***Emily Falcon***
Agency Contact Phone Number	***(302) 735-4041***
Corrective Action Plan	Delaware Department of Education staff have been identified and assigned specific MOE responsibilities to ensure MOE calculations are computed accurately, transferred appropriately to the Consolidated Grants through ESPES and follow up occurs when MOE or IDEA Excess amounts decrease. The Financial Reform Workgroup will provide oversight for all activities involving MOE and IDEA Excess. The Consolidated Grant application has been revised to collect more in depth information for when preliminary data indicates a LEA has not met the MOE or IDEA Excess.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	In addition to the activities listed in the Corrective Action Plan, the Education Associate for Federal Funds maintains a spreadsheet of MOE and IDEA Excess data in the consolidated grants and follows up with each LEA to determine if the alternative formulas are used if the net result is favorable to the LEAs. Additionally, staff will better document the correlation of data from DFMS and FSF to justify MOE and IDEA Excess information in ESPES.
Anticipated Completion Date (if not Fully corrected).	June 30, 2013

Agency	**U.S. Department of Agriculture** **Department of Education**
Fiscal Year	**2012**
Reference Number	**12-10**
Related Prior Year Findings	**11-ED-10**
Related 2013 Findings	**2013-010**
Program Name (CFDA No.)	**Child and Adult Care Food Program (10.558)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Eligibility (Subrecipients)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: In accordance with the Child and Adult Care Food (CACFP) Program, a State administering agency must follow the following eligibility requirements: a. Administering agencies may disburse CACFP funds only to those organizations that meet the eligibility requirements stated in the following program requirements: (1) generic requirements for all institutions at 7 CFR section 226.15 and 42 USC 1766(a)(6) and (d)(1); (2) additional requirements for sponsoring organizations at 7 CFR section 226.16; (3) additional requirements for child care centers (whether independent or sponsored) at 7 CFR section 226.17; (4) additional requirements for day care homes (which must be sponsored) at 7 CFR section 226.18; (5) additional requirements for outside-school-hours centers at 7 CFR section 226.19; (6) additional requirements for adult day care centers (whether independent or sponsored) at 7 CFR section 226.19a; (7) additional requirements for at-risk afterschool programs at 7 CFR section 226.17a; and (8) additional requirements for emergency shelters at 42 USC 1766(t). b. For-profit child care and outside-school-hours care centers may participate in the CACFP if they meet either of the following two criteria: (1) at least 25 percent of the enrolled children or 25 percent of the licensed capacity, whichever is less, are funded under Title XX of the Social Security Act; or (2) at least 25 percent of the children in their care are eligible for free or reduced price meals. Children who participate only in the at-risk afterschool component of the program must not be considered in determining whether the institution met this 25 percent threshold (42 USC 1766(a)(2)(B); 7 CFR section 226.11(c)(4)). c. For-profit adult day care centers may be eligible for CACFP if at least 25 percent of their participants receive benefits under Title XIX or Title XX of the Social Security

	Act (7 CFR section 226.2 (definition of "for-profit center")).
Condition	The following are considered both control and compliance exceptions. Based on our review of the applications of thirty-one subrecipients receiving $4,853,009 of Child and Adult Care Food Program funds during the year, we noted the following items not detected by the State Department of Education's review process: ☐ The annual applications do not contain all the required components of the performance standards. The standards require that the organizations have documentation of administrative capability, which includes documentation of appropriate and effective management practices as well as criteria that the organization has an adequate number and type of staff to ensure the operation of the Program. ☐ For one organization's application file, there was no written notification of approval or disapproval of the application within thirty calendar days of receipt. This organization received $55,099 of program funds during the year. Total expenditures for the program during the year amounted to $15,057,912.
Cause	Standard applications have not been updated to ensure all federal regulations have been incorporated. In addition, one applicant's file was missing evidence that the applicant was notified within thirty days of their approval or disapproval.
Effect	The applications do not contain all the components required by federal regulations and documentation of notification for one applicant was missing in the applicant's file.
Recommendation	We recommend that the Delaware Department of Education revise its CACFP applications to ensure all necessary components listed in the Federal regulations are explicitly incorporated.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Linda C. Wolfe, Director, School Support Services***
Agency Contact Phone Number	***(302) 735-4060***
Corrective Action Plan	☐ In fiscal year 2011, the on-line application was amended to ensure compliance with Provision 1 requirements. Provision 2 requirements for CACFP programs have been monitored via the New Sponsor Checklist, which is maintained in the permanent file of each sponsor; the review of the Management Plan; and the routine administrative reviews. The required elements, regarding capability, will be added to the New and Renewing on-line applications. ☐ Documentation for the organization in question will be reviewed and completed. ☐ Both findings will be addressed through the development of written internal processes to ensure compliance with all federal and state requirements.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The state agency will soon complete the work order required to have our software manufacturer add elements to the online application that will specifically address these conditions. The final software revisions will be in place before the next application review process in October 2013. The approval letter for Goldies Kids has been put in the program file. The state agency has also implemented a procedure that requires the use of emails to document conversations

	between staff and applicants when delays in approval occur. This will provide the tracking capability referred to in the audit.
Anticipated Completion Date (if not Fully corrected).	October 31, 2013

Agency	**U.S. Department of Health and Human Services** **U.S. Department of Agriculture** **U.S. Environmental Protection Agency** **Division of Management Services**
Fiscal Year	**2012**
Reference Number	**12-11**
Related Prior Year Findings	**11-DHSS-01**
Program Name (CFDA No.)	**Supplemental Nutritional Assistance Program Cluster (10.551, 10.561)** **Temporary Assistance for Needy Families (93.558, S-93.714)** **Child Care Cluster (93.575, 93.596)** **State Children's Health Insurance Program (93.767)** **Medicaid Cluster (93.775, 93.777, S-93.777, 93.778)** **Child Support Enforcement (93.563)** **Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)** **Low-Income Home Energy Assistance Program (93.568)** **Immunization Cluster (93.268, S-93.712)**
Type of Finding	**Scope Limitation, Significant Deficiency**
Compliance Requirement(s)	**Cash Management**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 et seq.), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures by prescribed in Treasury in Subpart B of 31 CFR part 205 (Subpart B). All of the major federal programs in this finding, except for State Children's Health Insurance Program, Child Care and Development Fund, and Immunization Cluster are subject to the CMIA. These 3 federal programs are required to be in compliance with Subpart B cash draw down procedures. Both CMIA and Subpart B cash draw down procedures require have similar requirements that support the exception being presented together in one category.

Condition

The Division of Management Services (DMS) utilizes a system query to download pending Accounts Receivable information from the State's general ledger, First State Financials (FSF), into a spreadsheet program. The spreadsheet program is then manually sorted, adjusted and linked to another external spreadsheet in order to calculate the amounts ready to be drawn down for each federal program.

The following is considered to be the control exception as documented in the chart below. There is a lack of segregation of duties within DMS' federal draw down process. The same DMS staff responsible for executing the query importing the query results into the spreadsheet, and modifying the spreadsheet in order to calculate the draw amounts is performing the cash draw downs, and reconciling the subsequent cash receipts to the Accounts Receivable information in FSF. All our exceptions were processed before February 8, 2012. On February 8, 2012, the Division implemented procedures surrounding supervisory review to establish segregation of duties and to ensure the proper draw amounts are being requested. Immediately after printing out the hard copy of the amounts to be drawn and prior to entering the amounts into the draw system, the Grants Unit Supervisor must examine the amounts to be drawn and sign the hard copy indicating review/approval.

The following is considered to be the compliance exception and scope limitation as documented in the chart below. The draw down information could not be directly traced back to FSF and therefore lacked appropriate support for the amount drawn down. All our exceptions were processed prior to October 28, 2011. The FSF system does not have the ability to be queried as to historical balances, and only the adjusted spreadsheet files, rather than the original system query results, were maintained by DMS as supporting documentation for the federal draw downs selected for audit test work. On October 28, 2011, the Division began archiving copies of the original FSF query results to ensure balances presented on the manipulated spreadsheet were accurate, correct, and supported by detailed reports.

The table below represents the scope of items examined and the associated results (the compliance items refer to a scope limitation as they were unable to be tested for compliance):

Low-Income Home Energy Assistance Program

	# of Items	***Dollar Amount of Items***
SEFA Expenditures		$11,978,905
Draw Population	70	11,990,771
Sample	19	7,728,975
Control Exceptions	11	2,873,375
Compliance Exceptions	9	3,828,853

Medicaid Cluster

	# of Items	***Dollar Amount of Items***
SEFA Expenditures		$846,161,660
Draw Population	388	857,643,293
Sample	65	275,253,060
Control Exceptions	34	101,754,772
Compliance Exceptions	18	91,004,404

State Children's Health Insurance Plan

	# of Items	*Dollar Amount of Items*
SEFA Expenditures		$15,532,999
Draw Population	60	15,843,323
Sample	16	3,872,386
Control Exceptions	11	2,497,500
Compliance Exceptions	7	1,924,228

Child Support Enforcement

	# of Items	*Dollar Amount of Items*
SEFA Expenditures		$26,646,112
Draw Population	39	24,712,521
Sample	11	15,431,882
Control Exceptions	4	5,856,637
Compliance Exceptions	4	5,856,637

Child Care and Development Fund

	# of Items	*Dollar Amount of Items*
SEFA Expenditures		$14,076,667
Draw Population	139	14,780,962
Sample	40	10,209,285
Control Exceptions	22	5,618,011
Compliance Exceptions	14	3,410,194

Supplemental Nutrition Assistance Program

	# of Items	*Dollar Amount of Items*
SEFA Expenditures		$14,259,395
Draw Population	146	13,166,976
Sample	38	7,943,061
Control Exceptions	20	5,308,026
Compliance Exceptions	4	2,139,866

Temporary Assistance for Needy Families

	# of Items	*Dollar Amount of Items*
SEFA Expenditures		$34,813,071
Draw Population	90	35,351,666
Sample	24	2,327,631
Control Exceptions	15	12,922,401
Compliance Exceptions	8	8,043,931

Drinking Water State Revolving Fund

	# of Items	*Dollar Amount of Items*
SEFA Expenditures		$16,526,758
Draw Population	164	16,927,421
Sample	43	11,861,209
Control Exceptions	22	6,720,408
Compliance Exceptions	9	2,211,216

Immunization Cluster

	# of Items	***Dollar Amount of Items***
SEFA Expenditures		$1,772,904
Draw Population	48	1,621,203
Sample	13	615,368
Control Exceptions	7	319,276
Compliance Exceptions	5	204,426

Cause	Each of the two exceptions resulted from lack of sufficient procedures that where implemented during the audit period. The results of our audit procedures after February 8, 2012 for control exceptions and after October 28, 2011 for compliance exceptions supports that the changes have addressed conditions. The exception occurred because DMS utilizes a system query to obtain the required information from the State's accounting system due to the large volume of grants being drawn down by the Department; however, the original query results were not maintained. Due to staffing shortages, DMS was unable to establish an adequate segregation of duties over the cash management function. DMS has implemented a supervisory review of all draw down requests for payments prior to submission to the Federal agencies to ensure the proper amounts are being requested, as well as the saving of all original system queries prior to manipulation. As of October 2011, the First State Financial system was reconfigured to include the lag times established within the CMIA Agreement.
Effect	Without a management review control in place, DMS may request funds in a manner which is not in compliance with the CMIA or Subpart B as required by the terms of the grant agreements. Therefore, those amounts drawn down without the new procedures, both control and compliance are not properly supported and are questioned costs.
Recommendation	We recommend that DMS maintain their enhanced federal draw down procedures by ensuring there is an adequate level of supervisory review of the cash draws prior to submission to the federal agencies and to ensure proper segregation of duties over the cash management function. We also recommend that DMS continue to maintain the original FSF query results that correspond to each draw down either in hardcopy or in a non-alterable electronic format so that the draw down information can be validated.
Questioned Costs	Questioned costs are not determinable as sampling methodology does not support projection of errors.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	This is a repeat finding from last year's audit as corrective action was implemented during part of SFY-12. The below box outlines the corrective action in place part of SFY-12 (and acknowledged by KPMG above under "condition").

	Archived copies of original FSF queries: ☐ On 10/28/11, when KPMG pointed out that archived copies of the original FSF query results were not maintained, DHSS began archiving copies of the original query results (as recommended). ***Supervisory review of cash draws prior to submission:*** ☐ When the FSF download is sorted to calculate amounts to be drawn for each Federal program, a hard copy is printed out and then used to enter the amounts to be drawn into the Federal systems. ☐ Starting on 2/8/12, DHSS instituted the following practice. After printing out the hard copy of the amounts to be drawn (and prior to the draws being entered into the Federal systems), (1) the Grants unit supervisor or designee will be given the hard copy document, (2) examine the amounts to be drawn and (3) sign the hard copy to document their review/approval. With the above corrective action steps in place, this finding should not be repeated during SFY-13. During the transition in implementing the supervisory review of cash draws (starting on 2/8/12), there were several deposits that did not have supervisory approval (otherwise they were in compliance). DHSS will continue its efforts to ensure an adequate level of supervisory review of the cash draws as recommended.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The corrective action described in the finding response was put in place on 2/28/12.
Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Department of Health and Human Services** **Division of Management Services**
Fiscal Year	**2012**
Reference Number	**12-12**
Related Prior Year Findings	**11-DHSS-02**
Program Name (CFDA No.)	**Temporary Assistance for Needy Families (93.558, S-93.714)** **Child Care Cluster (93.575, 93.596)** **State Children's Health Insurance Program (93.767)** **Medicaid Cluster (93.775, 93.777, S-93.777, 93.778)** **Child Support Enforcement (93.563)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Special Tests and Provisions (ADP Risk Analysis and System Security Review)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: Per 45 CFR § 95.621 ADP reviews. **(f) ADP System Security Requirements and Review Process—** (1) ADP System Security Requirement. State agencies are responsible for the security of all ADP projects under development, and operational systems involved in the administration of HHS programs. State agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of Federal ADP systems and information processing. (2) ADP Security Program. State ADP Security requirements shall include the following components: (i) Determination and implementation of appropriate security requirements as specified in paragraph (f)(1) of this section. (ii) Establishment of a security plan and, as appropriate, policies and procedures to address the following area of ADP security: (A) Physical security of ADP resources; (B) Equipment security to protect equipment from theft and unauthorized use; (C) Software and data security;

	(D) Telecommunications security; (E) Personnel security; (F) Contingency plans to meet critical processing needs in the event of short or long-term interruption of service; (G) Emergency preparedness; and, (H) Designation of an Agency ADP Security Manager. (iii) Periodic risk analyses. State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. (3) ADP System Security Reviews. State agencies shall review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. (4) Costs incurred in complying with provisions of paragraphs (f)(1)–(3) of this section are considered regular administrative costs which are funded at the regular match rate. (5) The security requirements of this section apply to all ADP systems used by State and local governments to administer programs covered under 45 CFR part 95, subpart F. (6) The State agency shall maintain reports of their biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site review.
Condition	The following is considered to be both a control and compliance exception. DHSS has not completed a review of the Automated Data Processing (ADP) system security of installations involved in the administration of Health and Human Services (HHS) programs that complies with HHS requirements in the last two years. In the prior fiscal year, DHSS had provided a SOC 1 report for the MMIS system but it could not be used as evidence of the required risk analysis and security review. According to the American Institute of CPAs (AICPA), SOC 1 reports cover controls at service organizations relevant to user entities' internal controls over financial reporting and the nature of its scope is not technically sufficient to completely cover the following components that are required by HHS: (A) Physical security of ADP resources; (B) Equipment security to protect equipment from theft and unauthorized use; (C) Software and data security; (D) Telecommunications security; (E) Personnel security; (F) Contingency plans to meet critical processing needs in the event of short or long-term interruption of service; (G) Emergency preparedness; and, (H) Designation of an Agency ADP Security Manager.

	The DHSS/IRM Unit is currently in the process of writing new policies and working through the exact wording and logistics to be included to ensure all standards of 45 CFR Section 95.621 are addressed by the biennial review. Total expenditures in fiscal year 2012 for the respective programs are as follows: Medicaid Cluster - $846,161,660 SCHIP - $ 15,532,999 Child Support Enforcement - $ 26,646,112 CCDF - $ 14,076,667 TANF - $ 34,813,071
Cause	The exception occurred because DHSS does not currently have a formal policy or process to monitor and review system security.
Effect	Security vulnerabilities can lead to the DHSS systems being compromised. The agency may not be able to measure its security posture and identify security vulnerability when security assessment is not performed on a periodic basis, which can increase the potential for confidential personal information to be compromised.
Recommendation	DHSS should continue to work with DTI in the implementation of a formal policy to complete a bi-annual review over system security as required by HHS.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	As stated last year, DHSS's Information Resource Management unit was to work with the State Department of Technology and Information to draft and implement a formal policy by January 1, 2013 to complete biannual system security reviews as required by 45 CFR § 95.621. That work was completed and the formal policy posted on their website on January 4, 2013 under Departmental IRM Administrative Document Number 28. The policy can be found at http://intranet.dhss.state.de.us/dms/irm/irmadmindocs.html.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As stated in the audit response, corrective action was completed 1/4/13.
Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Department of Health and Human Services** **U.S. Department of Agriculture** **U.S. Environmental Protection Agency** **Division of Management Services**
Fiscal Year	**2012**
Reference Number	**12-13**
Related Prior Year Findings	
Related 2013 Findings	**2013-013**
Program Name (CFDA No.)	**Supplemental Nutritional Assistance Program Cluster (10.551, 10.561)** **Temporary Assistance for Needy Families (93.558, S-93.714)** **Child Care Cluster (93.575, 93.596)** **Child Support Enforcement (93.563)** **Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)** **Special Supplemental Nutrition Program for Women, Infants and Children (10.557)** **Immunization Cluster (93.268, S-93.712)**
Type of Finding	**Material Weakness**
Compliance Requirement(s)	**Reporting (SEFA Reconciliation)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The SEFA is prepared by the auditee, and must be presented fairly in all material respects in relation to the auditee's financial statements as a whole. The SEFA represents the expenditures subject to audit under the Single Audit. *45.CFR.92.20 (b) The financial management systems of other grantees and subgrantees must meet the following standards:* *(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.* *(2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.* *The regulation effectively requires the Federal Financial reports are to be supported by the official books and records of the grantee.* *A-102* ***Cash Management.*** *Agency methods and procedures for transferring funds shall minimize the time elapsing between the transfer to recipients of grants and cooperative*

agreements and the recipient's need for the funds.

(1) Such transfers shall be made consistent with program purposes, applicable law and Treasury regulations contained in 31 CFR Part 205, Federal Funds Transfer Procedures.

Condition

The following is considered to be a control exception. We found that reports submitted to the federal agencies did not agree to expenditures presented on the Schedule of Expenditure of Federal Awards (SEFA) for some programs. Additionally we observed that total cash drawn down for these same programs differed from the expenditures presented on the SEFA. Program management and the Division of Management Services (DMS) were unable to provide explanations or reconcile the variances. The respective program fiscal year 2012 expenditures and variances are presented in the table below:

SNAP			
	6/30/2012	**Variance to SEFA**	**Percent Variance**
*Federal Expenditure Per SEFA**	$ 14,259,395		
Federal Expenditures Reported	$ 6,898,342	$ 7,361,053	51.62%
Federal Cash Drawdowns	$ 13,166,976	$ 1,092,419	7.66%

TANF			
	6/30/2012	**Variance to SEFA**	**Percent Variance**
Federal Expenditure Per SEFA	$ 34,813,071		
Federal Expenditures Reported	$ 29,484,781	$ 5,328,290	15.31%
Federal Cash Drawdowns	$ 35,351,666	$ (538,595)	-1.55%

CCDF			
	6/30/2012	**Variance to SEFA**	**Percent Variance**
Federal Expenditure Per SEFA	$ 14,076,667		
Federal Expenditures Reported	$ 14,412,044	$ (335,377)	-2.38%
Federal Cash Drawdowns	$ 14,780,962	$ (704,295)	-5.00%

DWSRF			
	6/30/2012	**Variance to SEFA**	**Percent Variance**
Federal Expenditure Per SEFA	$ 16,526,758		
Federal Cash Drawdowns	$ 16,927,421	$ (400,663)	-2.42%

IMMUNIZATION			
	6/30/2012	**Variance to SEFA**	**Percent Variance**
*Federal Expenditure Per SEFA**	$ 1,772,904		
Federal Cash Drawdowns	$ 1,621,203	$ 151,701	8.56%

WIC			
	6/30/2012	**Variance to SEFA**	**Percent Variance**
*Federal Expenditure Per SEFA**	$ 11,016,952		
Federal Expenditures Reported	$ 11,553,147	$ (536,195)	-4.87%
Federal Cash Drawdowns	$ 13,549,689	$ (2,532,737)	-22.99%

CHILD SUPPORT			
	6/30/2012	**Variance to SEFA**	**Percent Variance**
Federal Expenditure Per SEFA	$ 26,646,112		
Federal Cash Drawdowns	$ 24,712,521	$ 1,933,591	7.26%

**This amount excludes non-cash items.*

Cause	There are many potential causes for differences in the numbers reported above including 1) timing of drawdown as compared to incurring the expenditures, 2) scope of grants included in federal financial reports and drawdowns differing from SEFA reports, 3) adjustments being made to reporting and drawdowns that cross programs or periods 4) differences in coding of underlying data in reporting module 5) errors made by program personnel. The differences cannot be reconciled because there is no procedure in place for the State agencies to reconcile total expenditures reported in the financial reports to the Federal Government as compiled from the State's general ledger system (FSF) to the reports from FSF that are used to compile the SEFA. Additionally, there is no process in place to review submitted financial reports and compare them to cash drawn down on a periodic basis and at year-end for reasonableness/accuracy.
Effect	Expenditures reported via federal financial reports may be misstated which may result in the Federal Government having inaccurate information about the expenditures that were incurred by the programs. See findings 12-18 and 12-19 for known errors in financial reporting. Additionally, it is possible that cash drawdowns are not synchronized with adjusted expenditures incurred.
Recommendation	We recommend that DMS and program management work with the Division of Accounting to put in place a reconciliation process to agree expenditures per federal financial reports to expenditures coded to their CFDA #'s in FSF. We also recommend that the Divisions ensure they are reconciling cash drawn down to federal financial reports periodically and at year end to ensure accuracy and completeness.

Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	Each year the Division of Accounting provides the SEFA information to KPMG. A draft of this finding was shared with DHSS in January 2013 (late in the audit cycle) and KPMG provided some of the SEFA query details to DHSS so that we could then start to reconcile the amounts. It should be pointed out that in order to be able to reconcile, DHSS needs to be provided the detailed information to reconcile to and with enough lead time. In the programs we were able to reconcile at this late point in the audit process, the following points outline reasons for the variances. 1. Timing of expenditures. Expenditures that occur at the end of a given State fiscal year (i.e. June) are not drawn until the beginning of the next year (July). As a result expenditures can appear lower than draws simply because of the timing for posting each set of transactions. When the next fiscal year ends, the reverse situation can occur (expenditures higher than draws). That was the case in almost all of the variances. 2. Reporting errors. This was the case with the SNAP program. It should be noted that the reporting error was corrected by the 6/30/12 report submission. Finally, in those reconciliations that we were able to perform, we found no costs inappropriately charged or drawn for Federal programs. As such we do not concur with the finding given the above information. Early on for the next audit cycle DHSS will request from the Division of Accounting the detailed list of transactions that comprise the applicable CFDA number SEFA amounts being provided to the auditor to allow sufficient time for reconciliation. Additionally we have been recently provided a query by the Division of Accounting that we can run that would provide the details for the annual SEFA amounts which we will also take advantage of next audit cycle. Finally, for those DHSS grants which other State agencies receive a part of the funding, DHSS will be reaching out to them to ensure that they are reconciling their portions of the applicable grants.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	No further updates. Planned corrective action will be carried out for next audit cycle which will be for SFY-13.
Anticipated Completion Date (if not Fully corrected).	During SFY-13 Single Audit cycle.

Agency	**U.S. Department of Health and Human Services** **U.S. Department of Agriculture** **Division of Management Services**
Fiscal Year	**2012**
Reference Number	**12-14**
Related Prior Year Findings	**11-DHSS-05**
Program Name (CFDA No.)	**Supplemental Nutritional Assistance Program Cluster (10.551, 10.561)** **Temporary Assistance for Needy Families (93.558, S-93.714)** **Child Care Cluster (93.575, 93.596)** **State Children's Health Insurance Program (93.767)** **Medicaid Cluster (93.775, 93.777, S-93.777, 93.778)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Allowable Costs**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: The State of Delaware follows a PACAP that administers federal programs within the DSS, DMMA, and Division of Management Services (DMS), all of which are divisions within the Delaware DHSS. The PACAP plan was effective for the period July 1, 2005 through September 30, 2008, with an automatic annual conditional approval until the new PACAP is approved. A State must claim Federal financial participation for costs associated with a program only in accordance with its approved cost allocation plan (45 CFR section 95.507).
Condition	The following is considered to be both a control and compliance exception. The Department of Health and Social Services (DHSS) did not follow its cost allocation plan when charging costs related to the Division of Medicaid and Medical Assistance (DMMA). The Public Assistance Cost Allocation Plan (PACAP) designates DMMA costs to be charged directly to the Medicaid Program or through the indirect charge method across all DMMA programs which include the following programs: Medicaid, Delaware Healthy Children Program (SCHIP), Delaware Prescription Assistance Program, Long-Term Care Medicaid Program, Chronic Renal Disease Program, Qualified Medicare Beneficiary Programs, Children's Community Alternative Disability Program, and Breast and Cervical Cancer Program. However, DHSS allocated the DMMA related costs among the Division of Social Services (DSS) programs which include the following programs: Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), and Child Care and Development Fund (CCDF).

	Total expenditures in fiscal year 2012 for the respective programs are as follows: Medicaid Cluster - $846,161,660 SCHIP - $ 15,532,999 SNAP - $237,305,936 CCDF - $ 14,076,667 TANF - $ 34,813,071
Cause	The exceptions occurred because the State did not set up the proper allocation method within its general ledger system to allocate DMMA costs in accordance with the approved PACAP.
Effect	DMMA costs of $1.9 million were allocated to DSS federal programs in a manner not consistent with the approved PACAP.
Recommendation	We recommend the State ensures its general ledger, First State Financials (FSF), is properly configured to allocate costs out of the cost pool in accordance with its approved PACAP Plan. We also recommend that the PACAP Plan be revised to reflect an allocation of costs to federal programs based on the true effort being provided to those federal programs. The State should also implement procedures to perform a review of the costs being allocated out of the cost pool to ensure it is being allocated in accordance with the approved PACAP.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	As background (and as stated in the FY-10 Single Audit response), in February 2010, DHSS had an independent firm review the department's Random Moment Sampling (RMS) process in place at that time and changes were implemented to improve that process and the resulting allocations. Subsequently, DHSS replaced the Random Moment Time Study (RMTS) and cost allocation system software (both applications were unsupported and outdated). The replacement internet based RMTS was fully implemented on 1/1/11 and cost allocation plan amendment submitted in December 2010. Workers (RMTS respondents) were trained prior to implementation. Annual refresher training for workers began January 2012. The cost allocation software was also installed and implemented in July 2011 including provision of a technical documentation/users manual and DHSS staffs trained in its use. In FY-11, DHSS awarded a contract to secure further outside assistance to review DHSS's system of Federal program administration and cost allocation including an in-depth review of the public assistance programs DHSS participates in, allocation methodologies and the supporting systems/processes. The objective of this concentrated effort is to (1) update/document the cost pools and allocation methodologies, (2) upgrade/improve the systems related to and supporting the Public Assistance Cost Allocation Plan (PCAP) and (3) production of an up-to-date, integrated DHSS PCAP with sound quality control procedures. At this point the various internal DHSS organizations have been interviewed to identify the various cost pools and an initial draft update to the DHSS PCAP narrative developed. This includes a clear segregation of DSS and DMMA costs in the plan and the application of

	discrete and different allocation methods to those costs. The next work phase commenced February 2012 which is to design/refine the various allocation methodologies, time studies, accounting structures that need to be in place. This phase is critical in order for us to be able to fully formulate the PCAP and then have the systems/structures in place prior to the PCAP submission and implementation. That work continues and we target completion in the first half of calendar year 2013 with the resulting PCAP submitted to the Department of Health and Human Services Division of Cost Allocation. Lastly, it should be pointed out that the DMMA workers (via the eligibility process they carry out) participating in the Random Moment time Study legitimately support and benefit the Federal programs in DSS and by extension, so do the other cost pools in DMMA. The programs benefiting from DMMA and DSS cross both organizations and are not restricted to just one organization. Finally, what the new narrative and updated PCAP (when implemented) will do is to more comprehensively account for all cost pools and organizational units in DSS and DMMA. By programming different and/or more discrete allocation methods into the DHSS cost allocation software (previously mentioned in this response), the software will create more specific cost pools that can then be set up in the State accounting system and assigned to expenditures in the system itself.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DHSS is in the process of finalizing the new PCAP with submission targeted for August 2013.
Anticipated Completion Date (if not Fully corrected).	August 2013 (submission to DCA)

Agency	**U.S. Department of Agriculture** **Department of Health and Social Services** **Division of Management Services**
Fiscal Year	**2012**
Reference Number	**12-15**
Related Prior Year Findings	
Program Name (CFDA No.)	**Supplemental Nutritional Assistance Program Cluster (10.551, 10.561)**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Special Tests and Provisions (ADP System for SNAP)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. According to 7 CFR sections 272.10 and 277.18, State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP. This includes: (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and (3) generating data necessary to meet Federal issuance and reconciliation reporting requirements. When using a service provider for critical systems the COSO requirements regarding review and monitoring should be incorporated into an organization's internal controls. Part 6 of OMB's Compliance Supplements identifies the following elements of monitoring: **Monitoring** is a process that assesses the quality of internal control performance over time. • Follow up on irregularities and deficiencies to determine the cause. • Internal quality control reviews performed. • Management meets with program monitors, auditors, and reviewers to evaluate the condition of the program and controls.
Condition	The following is considered to be a control exception. IT control deficiencies identified below were noted in the service organizations' SOC I examination report for DSS's critical applications: *JP Morgan Treasury Services:* The following control deficiencies related to Electronic Benefits Transfer (EBT) were noted as a result of the Service Organization Controls (SOC I/SSAE 16) examination of JP Morgan

	Treasury Services, the service organization that provides EBT services to DSS: *Access to systems is limited to authorized individuals.* *Exception:* Controls are not suitably designed to prevent or detect unauthorized use of the system administrator accounts with direct access to data. Passwords to these accounts were shared amongst team members and/or stored in clear text within configuration files, allowing EFS information technology personnel unmonitored access to these accounts, and facilitating unauthorized access to these accounts. As a result, the controls are not suitably designed to achieve the control objective, "Controls provide reasonable assurance that access to systems is limited to authorized individuals." The above deficiency led to an opinion qualification. *Access to systems* *Exception:* a. For the period July 1, 2011 through June 30, 2012, the SOC I auditor selected a sample of 26 new users and for each sampled user determined whether access had been approved by authorized management or a designee. The Soc I auditor noted that one unauthorized member of production support had logged into an administrator account and used that account to grant herself unauthorized access to the FEB application. The user was able to grant herself this access as a result of the design exception noted under the access administration control above. b. Two operating system level access recertifications, inclusive of security administrative access and GTI managed job scheduler access, were performed during the period. The SOC I auditor tested a sample of twenty-five users from the recertification that was initiated in October 2011, and noted no exceptions. As of June 2012, the tool used to facilitate the access recertification changed. As a result, the SOC I auditor selected an additional sample of users from the June 2012 recertification and noted that operating system level access was not recertified for three of twenty-five users sampled. While automated notification of access recertification tasks were reported to appropriate management, the manual action required to complete the recertification process was not performed due to a misunderstanding of the process associated with the new tool. In addition, DSS provided us with the SOC 1 report for the SNAP EBT contractor which included a qualified opinion as noted above. There is no evidence that this SOC I report was reviewed by program personnel. Additionally, DHSS has not addressed the weaknesses identified in the report or implemented any additional procedures to mitigate the identified risk. The total SNAP benefits paid were $223,046,541 and total expenditures for fiscal year 2012 amounted to $237,305,936.
Cause	The exception occurred because DHSS does not currently have a formal policy to monitor and review SOC I reports over service providers integral to their systems, and determine corrective actions for the State and the service provider.
Effect	The IT general control weaknesses could result in inaccurate processing of data and unauthorized access to systems. Without adequate IT general controls, the systems utilized for the SNAP program could be inappropriately accessed which could allow unauthorized or erroneous entries into the system without DSS knowledge or oversight.

Recommendation	DHSS and agencies supporting the systems utilized for SNAP should implement adequate IT general controls to address the system weaknesses noted. Management should implement controls to: 1) Obtain and review SOC I reports of service providers integral to the system for exceptions, weaknesses and user considerations. 2) Work with DTI in the implementation of a formal policy to complete a review over system security.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	The Div. of Management Services (Client Payments/Information Resource Management units) will work to formulate a formal policy/procedure to obtain and review SOC I reports of service providers (e.g. JP Morgan) integral to the system and review for exceptions, weaknesses and user considerations. It should be pointed out that JP Morgan did provide a copy of the Price Waterhouse SOC1 report (issued 10/29/12) to DHSS on 11/6/12. Additionally, DHSS reached out to JP Morgan which provided on 2/13/13 the corrective actions/remediation steps that they have taken to resolve the cited exceptions. The steps taken are as follows. The 2/13/13 JP Morgan corrective actions stated for the exception "**Access to systems is limited to authorized individuals":** Regarding the exception "**Access to systems"** exception, JP Morgan corrective action stated: *The following steps were executed in direct response to the issue noted by our auditors within our SSAE16 report:* ✓ *The database system functional accounts are only intended to be used by the application to interface with the database: to prevent inappropriate access the passwords were changed and encrypted (where required to be referenced in the application code).* ✓ *To further segregate, restrict and identify update access to the Security Gateway database, a unique break-glass functional account was created with a reduced number of authorized users. This database contains the application user profiles and entitlements for FEB (and several other in-scope applications).* ✓ *Technical production support user IDs have been reviewed to confirm all staff have "read-only" accounts assigned. Any production incident requiring update access requires the use of a break-glass account.* ✓ *Senior Management has issued a statement to remind all Technologists it is against J.P. Morgan Chase Policies and Standards to share passwords and failure to adhere to these policies is punishable up to and including termination.* ✓ *Organizational changes were made among the staff and management of the Production Support group responsible for this exception.* ✓ *A quarterly review of application user access is being performed to ensure users are granted access to our applications only by formal access request.*
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐

Description of Status	As an update, the Div. of Management Services (Client Payments/Information Resource Management units) formulated the formal policy/procedure to obtain and review SOC I reports of service providers (e.g. JP Morgan) integral to the system and review for exceptions, weaknesses and user considerations.
Anticipated Completion Date (if not Fully corrected).	Policy/procedure was put in place 5/16/13.

Agency	**U.S. Department of Health and Human Services** **Division of Medicaid and Medical Assistance**
Fiscal Year	**2012**
Reference Number	**12-16**
Related Prior Year Findings	**11-DMMA-01**
Related 2013 Findings	**2013-021**
Program Name (CFDA No.)	**Medicaid Cluster (93.775, 93.777, S-93.777, 93.778)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Eligibility**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: There are specific requirements that must be followed to ensure that individuals meet the financial and categorical requirements for Medicaid. These include that the State or its designee shall: *B(1) Written Application* "Require a written application signed under penalty of perjury and include in each applicant's case records facts to support the agency's decision on the application (42 USC 1320b-7(d); 42 CFR sections 435.907 and 435.913). *B(2) Income and Eligibility Verification System* Use the income and eligibility verification system (IEVS) to verify eligibility using wage information available from such sources as the agencies administering State unemployment compensation laws, Social Security Administration (SSA), and the Internal Revenue Service to verify income eligibility and the amount of eligible benefits. With approval from HHS, States may use alternative sources for income information. States also: (a) may target the items of information for each data source that are most likely to be most productive in identifying and preventing ineligibility and incorrect payments, and a State is not required to use such information to verify the eligibility of all recipients; (b) with reasonable justification, may exclude categories of information when follow-up is not cost effective; and (c) can exclude unemployment compensation information from the Internal Revenue Service or earnings information from SSA that duplicates information received from another source (42 USC 1320b-7(a); 42 CFR sections 435.948(e) and 435.953). Require, as a condition of eligibility objections, refuses to obtain a SSN. In redetermining eligibility, if the case record does not contain the required SSN, the agency must require the recipient to furnish the SSN (42 CFR section 435.920(b)) (42 USC 1320b-7(a)(1); 42 CFR sections 435.910 and 920).

	Verify each SSN of each applicant and recipient with SSA to insure that each SSN furnished was issued to that individual and to determine whether any others were issued (42 CFR sections 435.910(g) and 42 CFR 435.920)." *B(6) Redetermination* Redetermine the eligibility of Medicaid recipients with respect to circumstances that may change (e.g., income eligibility), at least every 12 months. The agency may consider blindness and disability as continuing until the review physician or review team determines that the recipient's blindness or disability no longer meets the definition contained in the plan. There must be procedures designed to ensure that recipients make timely and accurate reports of any changes in circumstances that may affect their eligibility. The State must promptly redetermine eligibility when it receives information about changes in a recipient's circumstances that may affect his or her eligibility (42 CFR section 435.916).
Condition	The following are considered to be both control and compliance exceptions. *B(1) Written Application* For 6 out of 90 applicants selected, the Division of Medicaid and Medical Assistance (DMMA) was unable to provide documentation to support that the recipient signed a written application for benefits under the penalty of perjury. Benefits provided to the 6 recipients were $11,254.79. *B(2) Income and Eligibility Verification System* For 3 out of 90 applicants selected, DMMA did not provide evidence that the applicant's Social Security Number was verified with the Social Security Administration (SSA) at any point within the period of receiving benefits. Benefits provided to the 3 recipients were $5,535.72. *B(6) Redetermination* For 1 out of 90 applicants selected, DMMA did not provide evidence that the recipient was properly redetermined to be eligible for benefits within the required timeframe of 12 months. Benefits provided to the one recipient were $699.03. Total benefit payments for the fiscal year 2012 per FSF were $786,738,561 while total expenditures for the program in fiscal year 2012 amounted to $846,161,660.
Cause	The missing applications could be due to staff failing to upload the application into the Document Imaging System (DIS) and/or the misplacement of the original application in the paper file. The lack of Social Security Number verification resulted from the Delaware Client Information System (DCIS-II) System not having included the applicant within the population to run through the data matching interfaces with the Social Security Administration. The reason for the late redetermination is unknown.
Effect	Households may receive government benefits without the legal security that individuals who make false statements will be persecuted to the full extent of the law. Federal monies may be utilized for recipients who did not qualify or continue to qualify for Medical assistance.

Recommendation	We recommend that the DMMA enhance their retention policies and procedures within their State Plan to ensure proper records are maintained to support the applicant eligibility determination. We also recommend that the State modify its procedures to ensure that all cases are subject to data matching with the SSA. We recommend that the DMMA implement procedures to ensure that all recipients are recertified on an annual basis through the implementation of system alert functions within the DCIS-II System.
Questioned Costs	There are $17,489.54 of questioned costs associated with the items noted above.
Agency Contact Name	***Ray Fitzgerald, DSS Deputy Director***
Agency Contact Phone Number	***(302) 255-9645***
Corrective Action Plan	The enclosed plan represents DHSS' response to the Single State Audit findings. *B(1) Written Application & B(6) Redetermination* Our agency implemented a Document Imaging System (DIS) used to electronically record client records. The process we had in place was not as effective as we needed it to be resulting in the following problems: a. DIS process procedures varied from location to location which resulted in inconsistent documentation of electronic client verification. This inconsistency created the following issues: i. Inability to locate required documentation including client verification and application information because documents were mislabeled; misfiled; or not scanned properly. ii. Client paper files were not retained as long as they should have been. b. As a result of these finding we have or will implement the following procedures to ensure that required verification is recorded in electronic client files: i. We are centralizing our DIS processes and procedures and will create standard procedures to ensure consistency when sorting, scanning and labeling documents. This process is currently being phased in at a pace of approximately 3 locations per month. We started this process in October 2012 and expect the process to be fully implemented by December 2013. ii. To support this phase-in we are directing our offices who are not yet included in the centralized DIS process to retain paper files for 6 months to ensure that we minimize incidents of irregularities (missing information) resulting from disparate local processes. c. DMMA will document the physical location of closed cases so we know where to locate requested information for future audits. i. Note: DMMA continues to dispute the error finding for Case#0000008309. This application was signed by the Social Worker from Christiana Care with client signing the Authorization to release information. Case was denied 3/2/2012 because the client wasn't placed; once he was placed @ NH, case opened 3/9/2012.

	B(2) Income and Eligibility Verification System a. Consistent with Medicaid Common Eligibility policy reference **14105.1 Exception For Infants,** which states, "Infants born 1/1/91 and after do not have to provide or apply for a number until the child turns age one", DSS will ensure that a child's SS# is verified at the recertification/periodic review (for any program of assistance) or before the child turns 1, whichever time period is the shortest. This will ensure that all newborn children, existing or newly added to a case, will have a SS# listed or will be removed from the case prior to turning 1. b. DSS will instruct our staff to verify that all SS#'s are entered accurately prior to confirmation. This added level of quality assurance will minimize incidents of data entry error. i. Note: DSS continues to dispute the error finding for Case#6003554066; our records indicate that the SSN has been in the system since her birth in 2007 and we provided verification to support that on 10/4/2012. The child's name was changed in January 2010. Anticipated Completion Date: B(1)- b(i)- December 31, 2013 b(ii)- June 30, 2013 B(2)- a- December 31, 2013 b- June 30, 2013 Auditors' Response: B(1) – The audit evidence provided by DMMA was subsequent to the completion of audit fieldwork and was incomplete, therefore, our conclusion continues to be that DMMA was unable to provide documentation to support that the recipient signed a written application for benefits under the penalty of perjury. B(2) – The audit evidence provided by DMMA was three months subsequent to the completion of audit fieldwork and was incomplete, therefore, our conclusion continues to be that DMMA was unable to provide evidence that the applicant's Social Security Number was verified with the Social Security Administration (SSA) at any point within the period of receiving benefits.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The following updates are provided to the corrective action. B(1)- b(i)- December 31, 2013: Centralization of DIS processes/procedures is in progress. Currently all but 2 location field office locations in New Castle county are centralized. Kent and Sussex counties are planning to begin implementation in late May early June 2013. b(ii)- June 30, 2013: Field offices were directed in March 2013 to retain paper files for 6 months to ensure that they minimize incidents of irregularities (missing information) resulting from disparate local

	processes. B(2)- a- December 31, 2013: Field office managers have been directed to discuss and reinforce with field staff the Medicaid Common Eligibility policy reference 14105.1 Exception For Infants no later than 6/30/13. b- June 30, 2013: Field office managers have been directed to discuss and reinforce with field staff no later than 6/30/13 that they are to verify that all SS#'s are entered accurately prior to confirmation. This added level of quality assurance will minimize incidents of data entry error. Additionally, regarding SSN's, DSS runs a match daily with the Social Security Administration to verify SSN's and receives a daily response from SSA. If there is a mismatch, an alert is sent to the eligibility worker to reconcile.
Anticipated Completion Date (if not Fully corrected).	December 31, 2013

Agency	**U.S. Department of Health and Human Services** **Division of Medicaid and Medical Assistance**
Fiscal Year	**2012**
Reference Number	**12-17**
Related Prior Year Findings	**11-DMMA-02**
Program Name (CFDA No.)	**State Children's Health Insurance Program (93.767)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Eligibility**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: Per Delaware's State Plan: "Eligibility will be established using gross income of all immediate family members living in the same household with a standard $90 disregard per earner, a disregard for the moment of actual child care expenses up to $175 for children age 2 and above and $200 for children under age 2. In addition, there will be a disregard of the first $50 of child support for potentially eligible children. The resultant countable income will be compares to 200% of the FPL for a family size of those in the immediate family with one exception (a pregnant woman will count as [2] people for the determining the FPL level to use). Income less than or equal to 200% of the FPL will qualify the children for eligibility for the Delaware Healthy Children Program." The Delaware State Plan also states that applicants "must be ineligible for enrollment in any public group health plan".
Condition	The following is considered to be a both a control and compliance finding. One out of our sample of 85 children receiving SCHIP benefits was determined to be ineligible and received $2,275 in benefits. We noted that the applicant's income exceeded the income limit as described by the Delaware State Plan for SCHIP. We also noted that the applicant was enrolled in a public group health plan while receiving SCHIP benefits, which is not in compliance with eligibility requirements per the Delaware State Plan for SCHIP. Total benefit payments for the fiscal year were $13,297,709 while total expenditures for the program in fiscal year 2012 amounted to $15,532,999.
Cause	The exception occurred because DMMA did not follow the Delaware State Plan requirements in regards to the determination of eligible recipients.
Effect	Children receiving SCHIP benefits may not be eligible to receive these benefits.
Recommendation	We recommend that the DMMA follow the set guidelines and rules established for eligibility determinations within the Delaware State Plan for SCHIP as approved by the Department of Health and Human Services.
Questioned Costs	There are $2,275 in questioned costs associated with the payment of benefits for the identified exception.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Agency Contact Name	***Ray Fitzgerald, DSS Deputy Director***
Agency Contact Phone Number	***(302) 255-9645***
Corrective Action Plan	This case was open in CHIP on 4/30/12 based on income of $2,003.00 which made the child eligible for the program. Two days later on 5/2/2012 a much higher income was added but since the case had already opened in CHIP it remained open for the guaranteed eligibility period. We are limited on what we can do to prevent these issues because of the 12 month guaranteed eligibility period. We will attempt to mitigate the dollar error by attempting the following: 1. Run a quarterly match between MMIS and our SCHIP client population to determine if the client has third party insurance. Currently there are no linkages to perform this task automatically. 2. We will also reinforce with our staff the care that needs to be paid to properly entering income data, especially for CHIP cases, to minimize the chance of errors like this happening in the future.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The quarterly match run between MMIS and the SCHIP population was being performed by the 3/30/13 time line as outlined in number 1 of the corrective action plan. Regarding number 2 of the corrective action plan, the corrective action was discussed and reinforced with field managers and managers in turn discussed and reinforced with their field staff by the 3/30/13 timeline.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Agency	**U.S. Department of Health and Human Services** **Division of Social Services**
Fiscal Year	**2012**
Reference Number	**12-18**
Related Prior Year Findings	**11-DSS-04**
Program Name (CFDA No.)	**Child Care Cluster (93.575, 93.596)**
Type of Finding	**Noncompliance, Material Weakness**
Compliance Requirement(s)	**Reporting**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: SF-425, Federal Financial Report- 1) The submission of interim FFRs will be on a quarterly, semi-annual, or annual basis, as directed by the Federal agency. A final FFR shall be submitted at the completion of the award agreement. The following reporting period end dates shall be used for interim reports: 3/31, 6/30, 9/30, or 12/31. For final FFRs, the reporting period end date shall be the end date of the project or grant period. 2) Quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period. Annual reports shall be submitted no later than 90 days after the end of each reporting period. Final reports shall be submitted no later than 90 days after the project or grant period end date.
Condition	The following is considered to be both a control and compliance exception. We were unable to obtain and test the reconciliation of the CCDF amounts reported on the SF-425 report to the amounts reported on the First State Financials (FSF) system reports or the supporting documentation provided. We note that total cumulative expenditures per FSF were $32,893,806 and the SF-425 reported total expenditures of $32,928,648 for the quarter ending March 31, 2012. For the quarter ending June 30, 2012, total cumulative expenditures per FSF were $21,292,386 and the SF-425 reported total expenditures of $21,049,741. The total expenditures for the program in fiscal year 2012 amounted to $14,076,667.
Cause	The exception occurred because multiple state agencies including the Department of Services for Children, Youth and Their Families and the Department of Education expend CCDF funds but the Department of Health and Social Services does not have a procedure in place to obtain and reconcile other State department expenditures that are included within the SF-425 reports.
Effect	The amounts reported to the Federal Agency, the Department of Health and Human Services, on the SF-425 report could not be reconciled to amounts reported on the FSF system generated reports (DGL123) which may result in the Federal Government having less/more information about the expenditures that were incurred by the program.

Recommendation	We recommend that the Department of Health and Social Services implement policies and procedures surrounding obtaining the appropriate general ledger reports (e.g. DGL123) from all departments expending costs relating to the CCDF Program prior to preparation and submission of the SF-425 report.
Questioned Costs	**March 31, 2012** Total Expenditures Per SF-425 $ 32,928,648 Total Expenditures Per FSF $ 32,893,806 ***Over-reported Costs $ 34,842*** **June 30, 2012** Total Expenditures Per SF-425 $ 21,049,741 Total Expenditures Per FSF $ 21,292,386 ***Under-reported Costs $ (242,645)***
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	In an examination of the March 31, 2012 report it was determined that the "Total Expenditures Per SF-425" of $32,928,648 were obtained by the auditors from the DHSS reports (based upon state accounting system data) used for effectuating draws from the federal draw system. This report includes cumulative draw and expenditure information for FFY-2010 through FFY-2012 derived from the State accounting system. It should also be pointed out that the reason "Total Expenditures Per SF-425" decreased from $32,928,648 as of March 31, 2012 to $ 21,049,741 on June 30, 1012 is due to the fact that the June 30 report does not include the FFY-10 grant expenditures. That grant year was fully expended/finalized by March 31, 2012 and subsequently dropped off the Federal reporting system. Therefore that grant year was no longer being reported. The questioned costs as of March 31, 2012 and June 30, 2012 and variance is related to expenditures occurring in other departments and that DMS did not obtain the accounting report/budgetary expenditure information directly from other Departments. Steps have been taken to ensure that DMS receives and uses the other department's expenditure data (see corrective action). DHSS began the process of obtaining financial data from other Departments of the State in January 2013. OMB will be providing the DOE DGL123 and DGL018 on a quarterly basis and DSCYF will be providing their department's financial data for grant funds received from DHSS. The SF-425 PMS report will be corrected when the quarter ending 3/31/13 report is submitted.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As described in the finding responses, corrective action was put in place April 30, 2013 for this finding.

Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Agency	**U.S. Department of Health and Human Services** **Division of Social Services**
Fiscal Year	**2012**
Reference Number	**12-19**
Related Prior Year Findings	**11-DSS-06**
Program Name (CFDA No.)	**Temporary Assistance for Needy Families (93.558, S-93.714)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Reporting**
Criteria	Control exceptions: The A-1 02 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: Per 45 CFR Section 265.3(c), "(1) Each State must file quarterly expenditure data on the State's use of Federal TANF funds, State TANF expenditures, and State expenditures of MOE funds in Separate State programs. (2) If a State is expending Federal TANF funds received in prior fiscal years, if must file a separate quarterly TANF Financial Report (or, as applicable, Territorial Financial Report) for each fiscal year that provides information on the expenditures of that year's TANF funds."
Condition	The following is considered to be both a control and compliance exception. We were unable to obtain and test the reconciliation of the TANF amounts reported on the SF-425 report to the amounts reported on the First State Financials (FSF) System generated reports as well as the supporting documentation provided. We note that grant inception to date cumulative expenditures per FSF were $45,959,452 and the SF-425 reported total cumulative expenditures of $40,493,431 for the quarter ending March 31, 2012. For the quarter ending June 30, 2012, grant inception to date cumulative expenditures per FSF were $56,713,553 and the SF-425 reported total cumulative expenditures of $56,640,638. Total expenditures for the program in fiscal year 2012 amounted to $34,813,071.
Cause	The exceptions occurred because the Department of Health and Social Services does not have a procedure in place to obtain and reconcile Department for Services for Children, Youth, and Families (Department 37) and DHSS (Department 35) expenditures that are included within the SF-425 reports.
Effect	The amounts reported to the Federal Agency, the Department of Health and Human Services, on the SF-425 report could not be reconciled to amounts reported on the FSF system generated reports (DGL123) which results in the Federal Government having less/more information about the expenditures than were incurred by the program.
Recommendation	We recommend that the Department of Health and Social Services implement policies and procedures surrounding obtaining the DGL123 reports from all departments expending costs relating to the TANF Program prior to preparation and submission of the SF-425 report as well as performing reconciliation procedures prior to submission of report.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Questioned Costs	**March 31, 2012** Total Expenditures Per SF-425 $ 40,493,431 Total Expenditures Per FSF $ 45,959,452 ***Under-reported Costs $ (5,466,021)*** **June 30, 2012** Total Expenditures Per SF-425 $ 56,640,638 Total Expenditures Per FSF $ 56,713,553 ***Under-reported Costs $ (72,915)***
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	In an examination of the March 31, 2012 report it was determined that an omission occurred when the report was prepared and that cumulative expenditures for the FFY-12 grant year were not updated. Hence the cumulative expenditures were under stated. This error was discovered when preparing the June 30, 2012 report and corrected when that report was submitted. The June 30, 2012 questioned costs were the result of not obtaining budgetary information directly from other Departments understating the total reported costs. Subsequently the expenditure data was obtained from the other departments and corrected on the report submitted for the quarter ending 12/31/12. Subsequently steps have been taken to ensure use of the other department's expenditure data. DHSS began the process of obtaining financial data from other departments in the State in January 2013. OMB will be providing the DOE DGL123 and DGL018 on a quarterly basis and DSCYF will be providing their department's financial data for grant funds received from DHSS.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected. ☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As described in the finding responses, corrective action was put in place January 2013 for this finding. Subsequently, recognizing problems with reporting accuracy, in FY-14 DHSS brought in outside technical assistance in an effort to expand the documentation review/procedures for preparing the quarterly TANF report. This outside assistance includes a heightened level or review and quality control of the supporting work papers for the reports prior to submission.
Anticipated Completion Date (if not Fully corrected).	The technical assistance effort began in earnest later in FY-14 (1/1/14) and will be substantially used for the report to be submitted for the quarter ending 3/31/14.

Agency	**U.S. Department of Health and Human Services** **Division of Social Services**
Fiscal Year	**2012**
Reference Number	**12-20**
Related Prior Year Findings	
Related 2013 Findings	**2013-016**
Program Name (CFDA No.)	**Child Care Cluster (93.575, 93.596)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Allowable Costs (Effort Reporting)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

	Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including: • The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results. • The entire time period being sampled. • The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)
Condition	The following is considered to be both a control and compliance exception. During the testing of allowable or unallowable costs for payroll, four out of forty employees selected for testing submitted Time and Effort Certifications that were not approved and reviewed by a supervisor for multiple pay cycles. The four employees charged $27,891 to the program out of our sample of $71,045. Total payroll expended by the program was $620,227. Total expenditures for the program in fiscal year 2012 amounted to $14,076,667
Cause	The exceptions occurred because the Division of Social Services does not have procedures established that require supervisor review and approval of time charged to the Federal grants.
Effect	Employees may be recording the incorrect or unapproved payroll charges to the federal grant.
Recommendation	We recommend that DSS enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort reports.
Questioned Costs	Costs not properly approved were $27,891.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	The cited incomplete time and effort certifications for the CCDF program were a result of the fact that the certification form did not have a place for the supervisor's signature. The form has been revised to include the supervisor's signature and has been distributed for use. It should be pointed out that the work the 4 staff were engaged are allowable under the CCDF program. Their duties are: Employee #1 works as the CCDF administrator. They develop and submit the CCDF plan and oversee and coordinate related Quality activities. Employee #2 works as the Policy Administrator and writes provider policy for the child care providers who are paid from CCDF funds as well as oversees the child care monitors. Employee #3 works in the DSCYF Office of Child Care Licensing and develops the rules concerning the licensing of child care providers. Employee #4 (left our employ as of 5/18/12) worked as a child care monitor. This person made site visits to child care providers who received CCDF funds to ensure payments were

	made properly.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	While the corrective action was put in place on 1/16/13 as described in the finding response, due to continued problems with effort reporting, additional steps are being taken. A departmental policy on time and effort reporting is in the process of being formulated. This policy will be departmental in scope and once complete, it will be issued and disseminated departmentally. It will include the requirement, basis and importance of effort reporting, frequency and, where needed, to align/recode payroll charges to reflect effort as a required and ongoing process. It will also include the appropriate standards for monitoring/review of employee time/effort certifications by supervisors. Subsequently, training will be provided to departmental staffs completing effort reports as well as managers who supervise those staff. Additionally, DSS will design and put in place an effort reporting tracking system to ensure that CCDF effort reports are properly completed and tracked. This will include assigning an administrator to review effort reports and track the corrective action plan for this finding.
Anticipated Completion Date (if not Fully corrected).	Departmental policy formulation: March 31, 2014 Provision of training: By July 31, 2014.

Agency	**U.S. Department of Health and Human Services** **Division of Social Services**
Fiscal Year	**2012**
Reference Number	**12-21**
Related Prior Year Findings	
Program Name (CFDA No.)	**Child Care Cluster (93.575, 93.596)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Matching, Earmarking**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: <u>Matching</u> Per the June 2012 Compliance Supplement, "A State is eligible for Federal matching funds (limit specified in 42 USC 618 and 45 CFR section 98.63) only for those allowable State expenditures that exceed the State's MOE requirement, provided all of the Mandatory Funds (CFDA 93.596) allocated to the State are also obligated by the end of the fiscal year (45 CFR section 98.53). State expenditures will be matched at the Federal Medical Assistance Percentage (FMAP) rate for the applicable fiscal year. This percentage varies by State and is available on the Internet at http://www.aspe.hhs.gov/health/fmap.htm. To be eligible an activity must be allowable and be described in the approved State plan (45 CFR section 98.53). The State of Delaware's rate was 53.15 percent for the period of October 1, 2010 through September 30, 2011 and 54.17 percent for the period of October 1, 2011 through September 30, 2012. <u>Earmarking</u> Per the June 2012 Compliance Supplement, "A State/Territory may not spend on administrative costs more than five percent of total CCDF awards expended (i.e., the total of CFDAs 93.575 and 93.596) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed (42 USC 9858c(c)(3)(C); 45 CFR section 98.52)."
Condition	<u>Matching</u> The following is considered to be a control exception. During the testing of the Matching requirements for the Child Care Development Fund (CCDF) program, we found that for 25 out of 25 expenditures selected which were subject to matching requirements the Division of Social Services did not apply the correct Federal Medical Assistance Percentage. The effect of the error of the sample of $3,472,798, subject to testing was an under-match of $133,618 for CFDA #93.596. Total population of expenditures subject to matching requirements was $4,383,143.

	Earmarking The following is considered to be a compliance and control exception. The CCDF's 2012 Fiscal Year ACF 696-Report included $1,957,591 in administrative expenditures. The total expenditures for the June 30, 2012 period were $11,170,374; therefore, the five percent limit on administrative expenditures was exceeded by $1,399,072. Total expenditures for the program in fiscal year 2012 amounted to $14,076,667.
Cause	Matching The exception occurred because the Division of Social Services incurs state match in excess of the requirement and therefore does not true-up the FMAP percentages on a transaction by transaction basis. Earmarking The exception occurred because the Division of Social Services does not have controls in place to monitor the earmarking requirements established by the Federal government.
Effect	Matching The coding individual transactions between federal and state are not captured at the appropriate federal participation rate. As a result, the matching requirement is managed in the aggregate by the program. Earmarking The Division of Social Services exceeded earmarking limitations and expended a greater amount of federal funds on administrative expenditures.
Recommendation	We recommend the Division implement policies and procedures surrounding ensuring that the correct FMAP rate is applied and earmarking limits are appropriately met and reported.
Questioned Costs	***Matching*** No questioned costs, as the State over matches the program. ***Earmarking*** Total CCDF Expenditures $11,170,374 Administrative Earmark (5%) $558,519 Total Administrative Expenditures $1,957,591 Exceeded limit by $1,399,072
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	After the 6/30/12 ACF 696 report was prepared and submitted, a spreadsheet cell error was discovered. As a result, $1,028,043 that was reported on line 1.g. (Direct Service) was also reported on line 1.a. (Administration) overstating Administration expenditures. The error was subsequently corrected on the 9/30/12 ACF 696 report that was submitted on 11/14/12.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐

Description of Status	As described in the finding response the error was corrected on the 9/30/12 ACF 696 report submitted on 11/16/12.
Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Department of Agriculture** **Department of Health and Social Services** **Division of Public Health**
Fiscal Year	**2012**
Reference Number	**12-22**
Related Prior Year Findings	
Program Name (CFDA No.)	**Special Supplemental Nutrition Program for Women, Infants and Children (10.557)**
Type of Finding	**Scope Limitation, Material Weakness**
Compliance Requirement(s)	**Cash Management**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 et seq.), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred.
Condition	The Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) utilizes a system query report, to download pending Accounts Receivable information from the State's general ledger, First State Financials (FSF), into a spreadsheet for the determination of the federal cash draws to be requested for the program. The following is considered to be the control exception. There is a lack of segregation of duties within the program's federal draw down process, as the same WIC staff is responsible for executing the query, importing the query results into the spreadsheet, calculating the draw amounts, and performing the cash draw downs. For 11 out of 11 samples selected, supervisory review of the draw down was not completed prior to submission of request for payment. The 11 transactions sampled amounted to $567,822. The following is considered to be the compliance exception and scope limitation. The draw down information could not be directly traced back to FSF for 2 out of 11 samples selected because the FSF system does not have the ability to be queried as to historical balances. Only the adjusted spreadsheet files, rather than the original system query results, were maintained by Division of Public Health (DPH) and WIC as supporting documentation for the federal draw downs selected for audit test work. The two items without documentation in our test amounted to $12,668. The population of cash draws subject to testing amounted to $13,549,689 for fiscal year 2012 while the total expended for the program was $11,016,952.

Cause	The exception occurred because the WIC Program utilizes a system query to obtain the required information from the State's accounting system due to the large volume of grants being drawn down by the Department; however, the original query results were not maintained.
Effect	Without a management review control in place, WIC may request funds in a manner which is not in compliance with the CMIA Agreement or the terms of the grant agreements.
Recommendation	We recommend that WIC and DPH maintain their enhanced federal draw down procedures by ensuring there is an adequate level of supervisory review of the cash draws prior to submission to the federal agencies and to ensure proper segregation of duties over the cash management function. We also recommend that WIC and DPH continue its current policy to maintain the original FSF query results that correspond to each draw down either in hardcopy or in a non-alterable electronic format so that the draw down information can be validated.
Questioned Costs	The impact of the calculation of interest liability if any cannot be determined.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	It is the written policy of WIC and DPH that all federal draws be reviewed and approved in writing before submission to the federal agencies. The policy also requires that the reviewer and approver of the cash draw is not the same individual who has initiated and prepared the draw. The policy also requires the original FSF query results to be maintained in hardcopy or non-alterable electronic format in order to validate the draw down information. The policy will be modified to include a provision that in the event WIC staff absences occur that would cause a lack of proper segregation of duties and supervisory review, the central DPH fiscal office will be included/inserted into the draw review/approval process. It should be pointed out that during the audit period, WIC did not request any funds in a manner which was not in compliance with the CMIA Agreement or the terms of the grant agreements. Although there was an issue of lack of supervisory review/segregation of duties as cited, the funds drawn were for allowable costs under the WIC grant and do not represent questioned costs.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The corrective action was carried out as described in the finding response and timeline. Additionally, the central DPH fiscal office has been included in the draw review/approval process. In February 2013 (prior to the FY-2012 audit exit conference of March 29, 2013) DPM fully implemented enhancements to the management review procedure as part of the control process. The cash management policy for WIC includes that in the event of staff absences, the central DPM fiscal office will be included in the draw review and approval process.
Anticipated Completion Date (if not Fully corrected).	February 2013

Agency	**U.S. Environmental Protection Agency** **Department of Health and Social Services** **Division of Public Health**
Fiscal Year	**2012**
Reference Number	**12-23**
Related Prior Year Findings	
Program Name (CFDA No.)	**Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Reporting**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: *Financial Reporting* Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB (approval is indicated by an OMB paperwork control number on the form). Each recipient must report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. If the Federal awarding agency requires reporting of accrual information and the recipient's accounting records are not normally maintained on the accrual basis, the recipient is not required to convert its accounting system to an accrual basis but may develop such accrual information through analysis of available documentation. The Federal awarding agency may accept identical information from the recipient in machine-readable format, computer printouts, or electronic outputs in lieu of the prescribed formats. *Federal Financial Report (FFR) (SF-425/SF-425A (OMB No. 0348-0061)).* Recipients use the FFR as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10c). References to this report include its applicability as both an expenditure and a cash status report unless otherwise indicated.
Condition	The following is considered to be a compliance exception. The SF-425, Federal Financial Report, prepared and submitted for the DWSRF program as of December 31, 2011, does not have supporting documentation for the cumulative recipient share of expenditures reported of $5,162,257. Total expenditures for the program in fiscal year 2012 amounted to $16,526,758.
Cause	The exception occurred because the Division uses a manually altered spreadsheet to track the reported amount, but did not properly retain the FSF reports to support the calculation. The supporting spreadsheet could not be agreed to re-created general ledger reports.

Effect	The Federal Financial Reports' total recipient shares could be incorrect as reported.
Recommendation	We recommend the Division implement policies surrounding retention of supporting documentation for amounts recorded and reported on Federal Financial Reports.
Questioned Costs	There are no questioned costs as the program exceeded the required non-ARRA match.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	To strengthen the audit trail for match and to correspond to each FFR report, the Division has begun the collection and retention of supporting FSF documentation for transactional amounts recorded and reported on Federal Financial Reports. It should also be pointed out that the EPA, the granting federal agency, has been conducting quarterly reviews and has not expressed any concerns regarding match.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The corrective action was put in place by May 2013 as described in the finding response. Collection and retention of supporting FSF documentation was completed for all grants processed during FY2013.
Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Environmental Protection Agency** **Department of Health and Social Services** **Division of Public Health**
Fiscal Year	**2012**
Reference Number	**12-24**
Related Prior Year Findings	
Program Name (CFDA No.)	**Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Procurement, Suspension and Debarment**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The June 2012 Compliance Supplement states, "The requirements for suspension and debarment are contained OMB guidance in 2 CFR part 180, which implements Executive Orders 12549 and 12689, Debarment and Suspension; Federal agency regulations in 2 CFR implementing the OMB guidance; the A-102 Common Rule (§____.36); OMB Circular A-110 (2 CFR section 215.13); program legislation; Federal awarding agency regulations; and the terms and conditions of the award. Most of the Federal agencies have adopted this guidance and relocated their associated agency rules in Title 2 of the CFR as final rules. For any agency that has not completed its adoption of 2 CFR part 180, pending completion of that adoption, agency implementations of the common rule remain in effect. Appendix II includes the current CFR citations for all agencies. In either case, the applicable requirements are specified in the terms and conditions of award." "Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the government wide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions."
Condition	The following is considered to be a control exception. During the testing of Procurement, Suspension and Debarment for the Drinking Water State Revolving Fund (DWSRF), the Department of Natural Resources and Environmental Control (DNREC) did not properly conduct an Excluded Parties List search for one out of two vendors selected for testing to ensure that the vendor was properly excluded from the Federal Suspension and Debarment listing or obtain certification from the vendor though the contracting process. A total of $93,853 was expended to the vendor during the fiscal year. Total contracts tested were $229,762 and the total population of procurements was 11 non-subrecipients.

	Total expenditures for the program in fiscal year 2012 amounted to $16,526,758.
Cause	The exception occurred because the Program did not use the State's "boiler plate" contract for this vendor, so they should have perform a check of the EPLS; however, the program did not know coordinate between DPH and DNREC to one or the other since federal funds were use.
Effect	The program may have entered into a contractual agreement with a vendor which is suspended and/or debarred.
Recommendation	We recommend that the Department follow the steps surrounding Suspension and Debarment established within the Statewide Procurement manual. We also recommend that the DPH and DNREC utilize the "boiler-plate" contract established by the Department of Health and Social Services which includes language surrounding Federal Suspension and Debarment.
Questioned Costs	There were no questioned costs associated with this finding, the EPLS was checked subsequent to year end and the contractor was neither suspended nor debarred.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	As stated in the finding condition, DNREC was the entity that had entered into a collaborative research agreement (e.g. contract) with the cited contractor. The research agreement was put in place in 2003 that included the EPA requirements at that time and during FY-12 two projects were funded from a set aside in the DWSRF grant. Unfortunately the 2003 EPA requirements were subsequently amended and did not include the provisions that have been questioned in this audit. Fortunately the contractor was neither suspended nor debarred. It should be pointed out that DNREC began negotiations with the contractor to update the collaborative research agreement in November 2012 and the new agreement will include provisions that fully conform with the current federal Suspension and Debarment requirements. Additionally, until a new agreement is in place DNREC will suspend funding any new projects from EPA funds with this contractor.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Internal Controls have been modified to address the deficiency identified in this review and other weaknesses. Checklists required for transaction processing have been updated and additional training has been provided for program management staff. The Department believes these actions will prevent the action noted in the review from reoccurrence..
Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Environmental Protection Agency** **Department of Health and Social Services** **Division of Public Health**
Fiscal Year	**2012**
Reference Number	**12-25**
Related Prior Year Findings	
Program Name (CFDA No.)	**Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Special Tests and Provisions (Deposits to DWSRF)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.
Condition	The following is considered to be a control exception. During the testing of the Drinking Water State Revolving Fund's (DWSRF) Special Tests and Provisions: Deposits to DWSRF, for 14 out of 19 cash receipts, there was no evidence of a supervisory review performed over the receipts. The total cash receipts without supervisory review amounted to $1,279,038 out of a sample of $1,781,456. The Program recorded $5,663,366 in deposits for the fiscal year. Total expenditures for the program in fiscal year 2012 amounted to $16,526,758.
Cause	The exception occurred due to a lack of awareness of the review internal control by the personnel performing this function.
Effect	The Program could improperly record a cash receipt amount or accounting code which could go undetected without supervisory review.
Recommendation	We recommend the Division enforce review procedures and policies surrounding recording of cash receipts for the DWSRF program.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	The central DPH fiscal office will monitor the DWSRF Program to ensure that all cash receipts are properly reviewed and approved in writing prior to transmittal of information and documentation to the DPH Fiscal Office for final processing. The Program will continue to perform monthly cash receipts reconciliations to ensure that amounts have been properly recorded in FSF. Although there was an issue of lack of supervisory review as cited, it should be pointed out that no cash receipts were improperly recorded regarding the amount or to incorrect accounting codes. Therefore the cited dollars do not represent questioned costs.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The corrective action was put in place by 3/29/13 as described in the finding response. Additional information regarding the steps put in place are as follows. Receipts are reviewed and signed by supervision. The receipts along with deposit instructions are taken to the DPH central fiscal office for processing. The central fiscal office personnel reviews the documentation and signs for receipt. Electronic deposits are received from the Program Manager. The program Manager's e-mail is retained as approval to process. The e-mail along with instruction are taken to the DPH central fiscal office for receipt and processing.
Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Department of Health and Human Services** **Division of State Service Centers**
Fiscal Year	**2012**
Reference Number	**12-26**
Related Prior Year Findings	**11-SSC-03**
Related 2013 Findings	**2013-015**
Program Name (CFDA No.)	**Low-Income Home Energy Assistance Program (93.568)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Reporting, Period of Availability**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: <u>Reporting</u> Grantees must submit a report no later than August 1 indicating the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year, and must be reported (42 USC 8626). The LIHEAP Program is required to submit the SF-425, Federal Financial Report, annually for the period October 1, 2010 – September 30, 2011 for each type of grant award received. In addition, per Transmittal No. LIHEA-AT-2012-01, grantees should follow the instructions provided with the SF-425 form when filing the report, which per the Transmittal attachments, are the general instructions titled 'Federal Financial Report Instructions.' The general instructions state that federal agencies may require both cash management information on lines 10(a) through 10(c) and financial status information lines 10(d) through 10(o). <u>Period of Availability</u> At least 90 percent of the LIHEAP block grant funds payable to the grantee must be obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or carried over) for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to ACF. There are no limits on the time period for expenditure of funds (42 USC 8626). Leveraging incentive award funds and REACH funds must be obligated in the year in which they are awarded or the following fiscal year, without regard to the carryover limit. However, they may not be added to the base on which the carryover limit is calculated (45

	CFR sections 96.87(j)(1) and (k)). Funds not obligated within these time periods must be returned to ACF (45 CFR section 96.87(k)). LIHEAP emergency contingency funds are generally subject to the same obligation and expenditure requirements applicable to the LIHEAP block grant funds, but the contingency award letter should be reviewed to see if different requirements were imposed.
Condition	The following are considered to be both control and compliance exceptions. Upon review of the reconciliation detail that was used to create the interim SF-425 Report for Federal Fiscal year ended September 30, 2011 and the Carryover & Reallotment Report for Federal Fiscal Year 2011, amended 2/27/12, the following errors were noted: • 'Carryover Funds to FFY 2012' of $1,585,391 were included as a portion of the $13,937,315 federal share of expenditures when the expenditures had not been expended as of 9/30/11, the report date. • $500,000 of funds transferred to Delaware Department of Natural Resources and Environmental Control (DNREC), after 9/30/11, for Weatherization services were included as a portion of the $13,937,315 federal share of expenditures when the amounts had not been expended as of 9/30/11, the report date. • A $60,757 obligation was included twice in calculating funds obligated and incorrectly included as part of the total federal share of unliquidated obligations amount of $740,568. The reconciliation detail errors resulted in the following reporting errors: <u>Interim FFY 2011 SF-425 Report filed 2/28/12</u> • The reported "Federal share of expenditures" $13,937,315 was overstated by $2,085,391. The amount reported should have been $11,851,924. • The reported "Federal share of unliquidated obligations" $740,569 was overstated by $60,758. The amount reported should have been $679,811. • As a result, the reported "Total Federal share" $14,677,884 was overstated by $2,146,149. The amount reported should have been $12,531,735. • And the reported "Unobligated balance of Federal funds" $1,176,026 was understated by $2,146,149. The amount reported should have been $3,322,175. <u>FFY 2011 Carryover & Reallotment Report amended 2/27/12</u> • The reported "Projected unobligated balance of $2,761,418 was understated by $560,757. The amount reported should have been $3,322,175. • As a result, the reported "Reallotment amount" of $1,176,027 was understated by $560,757. The amount reported should have been $1,736,784. In addition, the SF-425 Reports for Federal Fiscal year 2011 and 2010 omitted the Federal Cash portion of the reports and did not report any cash receipts or cash disbursements. The total expenditures for the program in fiscal year 2012 amounted to $11,978,905.
Cause	The exceptions occurred because the program, through human error, mistakenly included financial data pertaining to the FFY 2012 period on the reconciliation detail worksheet used to calculate the amounts reported on the FFY 2011 SF-425 Report and Carryover & Reallotment Report and the program lacked of supervisory review of the filing.

	The cash amounts were excluded due to LIHEAP personnel's belief that they did not need to be included although no federal instructions noted this.
Effect	The LIHEAP Program reported incorrect amounts to the Federal Government and omitted cash amounts to the Federal Government. In addition, since the 90% threshold still was not met, LIHEAP must return more unobligated funds to the ACF than originally reported.
Recommendation	We recommend that LIHEAP implement at least one preparer and one reviewer to evaluate the reconciliation FSF of the SF-425 Reports and Carryover & Reallotment Report before submission. We also recommend LIHEAP follow general instructions for the reports and include all required information as needed.
Questioned Costs	There are no questioned costs as the expenditures reported of $13,937,315 agreed to First State Financial system reports but were reported in the wrong federal fiscal years.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	A corrected SF-425 Report was submitted to ACF through the federal On-Line Data Collection System (OLDC) on November 21, 2012. We contacted the ACF LIHEAP Officials on November 13, 2012 asking for their guidance in regard to appropriate corrective action pertaining to the FFY 2011 Carryover and Reallotment Report. We have not received a response. If we do not receive a response by 12/7/2012, we will submit a corrected Carryover and Reallotment Report. We will designate a preparer and reviewer to evaluate the reconciliation of FSF with the SF-425 Reports and Carryover and Reallotment Report before submission. Beginning with the SF-425 Reports due 12/31/2012 we will include the financial data in the federal cash portion of the reports.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The corrective action plan described in the finding response is in place and is being followed. The FY11 Carryover and Reallotment Report was submitted to HHS on January 28, 2013. However, the FY12 Report had already been submitted prior in August 2012 and was also incorrectly reported.
Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Department of Health and Human Services** **Division of State Service Centers**
Fiscal Year	**2012**
Reference Number	**12-27**
Related Prior Year Findings	**11-SSC-02**
Program Name (CFDA No.)	**Low-Income Home Energy Assistance Program (93.568)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Reporting (Special Reporting)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: The LIHEAP Program is required to submit the Annual Report on Households Assisted by LIHEAP (OMB No. 0970-0060). As part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each component (heating, cooling, crisis, and weatherization), and (2) the number of households served that contained young children, elderly, or persons with disabilities. Territories with annual allotments of less than $200,000 and Indian tribes are required to report only on the number of households served for each component (42 USC 8629; 45 CFR section 96.82): Key Line Items – (1) Section 1 – LIHEAP Assisted Households (2) Section 2 – LIHEAP Applicant Households
Condition	The following are considered to be both control and compliance exceptions. Some attributes/components of the LIHEAP Household Annual Report for the period October 1, 2010 – September 30, 2011 could not be agreed to supporting documentation and/or supporting documentation could not be provided or was not sufficient for some of the attributes/components. The program's internal auditor identified the report was incorrect and prepared a revised report in September 2012 for the period ended September 31, 2011, although the revised report has not been submitted as of audit fieldwork completion. The following errors occurred on the original report submitted in December 2011 for the year ended September 30, 2011: LIHEAP ASSISTED HOUSEHOLDS: • For the Heating line item, the report submitted did not agree to the supporting documenting for Total Number of assisted Households (-454 households difference), Under 75% Poverty (87 households difference), 75%-100% Poverty (-134 households difference), 101%-125% Poverty (-141 households difference), 126%-150% Poverty (-106 households difference), Over 150% Poverty (-160 households difference), 60 years

	or Older (-306 households difference), Disabled (690 households difference), and Age 5 Years or younger (-756 households difference). • For the Cooling line item, the report submitted did not agree to the supporting documenting for Total Number of assisted Households (846 households difference), Under 75% Poverty (404 households difference), 75%-100% Poverty (104 households difference), 101%-125% Poverty (182 households difference), 126%-150% Poverty (113 households difference), Over 150% Poverty (43 households difference), 60 years or Older (74 households difference), Disabled (858 households difference), and Age 5 Years or younger (308 households difference). • For the Other-Furnaces line item, the report submitted did not agree to the supporting documenting for Total Number of assisted Households (-32 households difference), Under 75% Poverty (-27 households difference), 75%-100% Poverty (-1households difference), 101%-125% Poverty (2 households difference), 126%-150% Poverty (-4 households difference), Over 150% Poverty (-2 households difference), 60 years or Older (-18 households difference), Disabled (-11 households difference), and Age 5 Years or younger (-3 households difference). • Support was not available due to system limitations for the Elderly, Disabled, or Young Child' totals per the report for Heating, Cooling, Winter/year round crisis, Other-Furnaces, and SNAP. • Requested data (which is not required to be submitted) for Age 2 Years or Younger and Age 3 Years through 5 year did not agree to supporting documentation for Heating (-548 and -718 households difference), and could not be provided for the amounts reports on the Report for Cooling, Winter/year round crisis, and other-furnaces. LIHEAP APPLICANT HOUSEHOLDS: • For the Heating line item, the report submitted did not agree to the supporting documenting for Total Number of applicant Households (-1009 households difference), Under 75% Poverty (-9 households difference), 75%-100% Poverty (-205 households difference), 101%-125% Poverty (-205 households difference), 126%-150% Poverty (-256 households difference), and Over 150% Poverty (-334 households difference). • For the Cooling line item, the report submitted did not agree to the supporting documenting for Total Number of assisted Households (846 households difference), Under 75% Poverty (404 households difference), 75%-100% Poverty (104 households difference), 101%-125% Poverty (182 households difference), 126%-150% Poverty (113 households difference), and Over 150% Poverty (43 households difference). • For the Other-Furnaces line item, the report submitted did not agree to the supporting documenting for Total Number of assisted Households (-32 households difference), Under 75% Poverty (-27 households difference), 75%-100% Poverty (-1households difference), 101%-125% Poverty (2 households difference), 126%-150% Poverty (-4 households difference), and Over 150% Poverty (-2 households difference). The total expenditures for the program in fiscal year 2012 amounted to $11,978,905.
Cause	The exceptions occurred because the report uses supporting documentation from Captains System, CAP's system, and emails from other subrecipients and there were errors when consolidating the different data elements together for the report which was not detected by the review process. In addition, some of the amounts per the report could not be supported or the underlying data elements of the support had not been provided to LIHEAP by the subrecipients at the time the report was created and submitted. LIHEAP switched systems in

	January 2012, however, the submitted report was prepared utilizing the old system prior to the changeover.
Effect	The LIHEAP Program is reporting incorrect data to the Federal Government in terms of applicant information.
Recommendation	We recommend that the LIHEAP Program continue to enforce policies and procedures that the review process of reports includes ensuring reports agree to underlying support. We also recommend that LIHEAP continue to ensure all underlying elements that are utilized to create the report are provided by the subrecipients at the time the report is created.
Questioned Costs	There are no questioned costs associated with this finding as the data represents applicant data and not expenditures.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	A corrected LIHEAP Household Report for the period October 1, 2010 – September 30, 2011 was prepared and submitted to ACF on November 20, 2012. The Department's IRM Unit has designed and developed a household data report in CAPS to capture all the data elements required on the LIHEAP Household Annual Report for LIHEAP heating assistance activities. We will enforce procedures to obtain the raw household data for cooling activities from the LIHEAP sub-recipient and the two vendors that administer the cooling programs. The raw data will be organized and summarized in a worksheet to facilitate reporting on the LIHEAP Household Annual Report.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The Revised 2011 LIHEAP Household Report was submitted to ACF on 11/20/12 as stated in the finding response. Procedures to collect data for the household report were revised during the FFY'12 program year and were put into effect when the 2012 Household Report was submitted to ACF on February 1, 2013. The Summer Cooling Assistance Program (SCAP) air conditioner component data elements were not entered into the CAPS database in 2012. OCS requested all the approved applications be sent directly to our office. OCS staff, under the supervision of the Internal Auditor, recorded each of the data elements required to be on the household report on a worksheet designed by the Internal Auditor. The items were recorded on the worksheet and are available for review as source documentation when the 2012 program is audited.
Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Department of Health and Human Services** **Division of State Service Centers**
Fiscal Year	**2012**
Reference Number	**12-28**
Related Prior Year Findings	
Program Name (CFDA No.)	**Low-Income Home Energy Assistance Program (93.568)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Procurement, Suspension and Debarment**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: Title 29, Chapter 69, State Procurement, Subchapter VI. Professional Services, Subsection 6985. *Sole source procurement* states: (a) A contract may be awarded for materiel or nonprofessional services without competition if the agency head, prior to the procurement, determines in writing that there is only 1 source for the required materiel or nonprofessional service. Sole source procurement shall not be used unless there is sufficient evidence that there is only 1 source for the required material or service and that no other type of material or service will satisfy the requirements of the agency. The agency shall examine cost or pricing data, which shall include lifecycle costing analysis as specified in §§ 6902 and 6909A(b) of this title if the sole source offers more than 1 type or variety of equipment, prior to an award under this section. Sole source procurement shall be avoided, except when no reasonable alternative sources exist. A written determination by the agency stating the basis for the sole source procurement shall be included in the agency contract file. Textbooks and relate instructional materials are sole source purchases. (b) An agency seeking a sole source procurement shall prepare written documentation citing the existence of a sole source condition. The document shall include the specific efforts made to determine the availability of any other source and an explanation of the procurement need. The agency may, for confirmation, submit this documentation to the Section for review and comment prior to the intended date of award. (c) The agency shall negotiate with the single supplier, to the extent practicable, a contract advantageous to the agency. The agency shall enter into a formal contract stating the terms and conditions of the procurement.

Condition	The following is considered to be both a control and compliance exception. LIHEAP incurred $18,351 for training calendars from Project Energy Savers, LLC, to provide their recipients with energy reducing ideas. The calendars are instructional materials, it was determined by the Program that Project Energy Savers, LLC was a sole source procurement. During a review of LIHEAP expenditures, the Director asked to see the three quotes for the calendar procurement and it was discovered that the steps for determination of the vendor as a sole source were not followed. The Director stopped approval on the voucher until she received the necessary information needed per the sole source procurement policies. The necessary documents were provided; however, as the goods had already been ordered, received, and distributed, no contract was entered into with the vendor. A sample of one vendor with expenditures of $18,351 in fiscal year 2012 was tested out of a population of six vendors with total expenditures of $400,921. The total expenditures for the program in fiscal year 2012 amounted to $11,978,905.
Cause	The exception occurred because the Program did not follow Delaware sole source procurement policies because there was confusion if they applied given that the purchase was to be a one-time purchase.
Effect	The Program did not enter into a contract, as required, and did not comply with Delaware procurement policies.
Recommendation	The Program should ensure they are complying with Delaware procurement policies and ensure all staff are knowledgeable of the policies and procedures especially those dealing with vendor and procurement purchases.
Questioned Costs	The $18,351 in expenditures were spent on allowable activities, but not properly procured.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	Steps will be taken to ensure appropriate OCS staff are trained on Delaware Procurement Policies. In the winter of 2012, Program Managers and Administrators attended a fiscal and budget overview with staff of DMS and DSSC that included a discussion of contracting for professional services and procurement of goods. Additionally, a training (conducted by the DSSC CFO, Internal Auditor and Director) to review fiscal and procurement policies will be provided to staff and completed by 2/27/13.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The corrective action described in the finding response was carried out and completed by the designated timelines (2/27/13).
Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Department of Education** **Department of Labor** **Division of Vocational Rehabilitation**
Fiscal Year	**2012**
Reference Number	**12-29**
Related Prior Year Findings	
Program Name (CFDA No.)	**Vocational Rehabilitation Cluster (84.126, S-84.390)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Allowable Costs (Effort Reporting)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

	Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including: • The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results. • The entire time period being sampled. • The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)
Condition	The following is considered to be both a control and a compliance exception. The time certification for one employee with payroll amounting to $77.82 out of 40 employees sampled with a total payroll value of $26,659.20 was not signed by the employee although the supervisor signed but did not date the certification. The certification was for the month of October 2011. The population of payroll transactions subject to testing amounted to $4,051,252 for fiscal year 2012 while the total expended for the program was $12,859,090.
Cause	The exception occurred because the employee had taken time off during the month for a sickness and management did not obtain the sign-off. The employee eventually retired and left the Program in December of that year.
Effect	Salaries may be inappropriately allocated to the DVR Program for different percentages than what is actually worked by the employees.
Recommendation	We recommend that the DVR enforce existing policies that time certifications are properly signed and dated by both the employee and supervisor in a timely basis.
Questioned Costs	Questioned salary costs for sample items are $77.02 where the certificate was not completed by the employee.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	While we agree that the timesheet in question was not signed by the employee, in this case there were unusual circumstances which prevented the employee from signing his timesheet. He was extremely ill and being treated n a medical facility out of state for an extended period of time. That illness eventually forced him to leave employment with the State of Delaware. That being said, the Division of Vocational Rehabilitation will make every effort to ensure that all timesheets are properly signed in the future.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	
Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Department of Labor** **Division of Employment & Training**
Fiscal Year	**2012**
Reference Number	**12-30**
Related Prior Year Findings	
Program Name (CFDA No.)	**Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.278)**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Cash Management**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 et seq.), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures by prescribed in Treasury in Subpart B of 31 CFR part 205 (Subpart B). KPMG notes WIA is required to be in compliance with Subpart B cash drawdown procedures. The timing of the cash drawdown should be within the proper period and should trace and agree to supporting documentation.
Condition	The following is considered to be a control exception. For the two cash drawdowns tested totaling $5,206,504.52, one did not have evidence of management review and the other request did not have evidence of who prepared it and it was submitted by the reviewer. There is a lack of segregation of duties as the same Workforce Investment Act (WIA) program staff is responsible for calculating the total draw (as evidenced through supporting documentation) and requesting the draw amount. We also found a larger than normal lag time between when the Program is expending funds compared to when they are requesting funds for reimbursement. The Program had five draws during the year all of which were several months after the expenditures had been drawn indicated by the table below:

	Deposit ID #	**Draw Amount**	**Draw Date**	**Dates per DAR006 Report**	**# Months Btw DAR006 Reports & When Funds are Drawdown**
	Deposit ID #1198	974,942.00	12/28/2011	June 2011, July 2011	5-6 Month Lag
	Deposit ID #1249	245,707.41	1/30/2012	June 2011, July 2011, August 2011	5-7 Month Lag
	Deposit ID #1532	2,117,615.43	5/31/2012	August 2011, September 2011	8-9 Month Lag
	Deposit ID #1589	1,309,258.66	6/22/2012	April 2011, May 2011, November 2011, December 2011	13-14 Month Lag (April/May); 6-7 Month Lag (Nov./Dec.)
	Deposit ID #1603	3,897,245.86	6/27/2012	February 2012 to June 2012	1-4 Month Lag
	Total drawdowns during fiscal year 2012 were $8,544,780 while the total expended for the program was $7,930,774.				
Cause	A lack of segregation of duties and untimely drawdowns occurred because of staffing turnover and related training time for new personnel.				
Effect	Without an independent management review control in place, WIA may request funds in a manner which is not in compliance with the CMIA, Subpart B, or the terms of the grant agreements. WIA is also not effectively meeting the cash requirements of actual expenditures for the State and Program with the amount of time that transpires between expenditures of funds and reimbursement of those funds.				
Recommendation	We recommend that WIA enhance its federal draw down procedures to ensure draws are done in a more timely manner and there is an adequate level of supervisory review of the cash draws prior to submission to the federal agencies and to ensure proper segregation of duties over the cash management function.				
Questioned Costs	There are no questions costs as amounts agreed to underlying general ledger reports (DAR006 Reports) and were for actual expenditures.				
Agency Contact Name	***Kris Brooks, DOL Controller***				
Agency Contact Phone Number	***(302) 761-8024***				
Corrective Action Plan	DET will revise drawdown procedures to ensure timely draws and that segregation of duties between the preparer and reviewer are clearly documented by the signature of the authorized preparer and approver.				
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐				

Description of Status	
Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Department of Labor** **Division of Employment & Training**
Fiscal Year	**2012**
Reference Number	**12-31**
Related Prior Year Findings	
Program Name (CFDA No.)	**Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.27**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Reporting (SEFA)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: The SEFA is prepared by the auditee, and must be presented fairly in all material respects in relation to the auditee's financial statements as a whole. We note that per Memorandum 'DOL Federal Award Recipients and single auditors', from the Assistant Inspector General for Audit, dated July 25, 2012, "CFDA #17.260, which included WIA Dislocated Worker Formula grants and National Emergency Grants (NEG's) has been removed from the CFDA. The new CFDA for the WIA Dislocated Worker Program is 17.278 and is included in the WIA cluster. The new CFDA # number for the NEG program is 17.277. For awards on or after July 1, 2010, CFDA 17.277 should be audited under Part 7 of the Supplement and not as part of the WIA cluster."
Condition	The following is considered to be both a control and compliance exception. We found that $147,881 of FY12 expenditures were incorrectly coded to CFDA #17.278 in First State Financials (FSF), and therefore, were incorrectly classified on the State's Schedule of Expenditures of Federal Awards (SEFA). The coding error had the following effect on our testing samples: • Total nonpayroll expenditures incorrectly coded to #17.278 totaled $78,121 ($60,085 of which was three items in our sample of 40 transactions); and • Total payroll expenditures incorrectly coded to #17.278 totaled $69,760 ($4,959 of which was three items in our sample of 65 transactions). In addition, we noted that two awards totaling $675,554 and $1,516,084 for National Emergency Grant (NEG) with effective dates of September 1, 2010 and October 1, 2010, respectively, were coded to CFDA #17.260 in FSF when they should have been coded to #17.277 effective July 1, 2011. Therefore, a total of $1,910,186 in expenditures was incorrectly classified to the WIA cluster on the State's SEFA.

	The coding error had the following effect on our testing samples: • Total nonpayroll expenditures incorrectly coded to #17.260 totaled $1,769,910 ($1,285,646 of which was 11 items in our sample of 40 transactions); and • Total payroll expenditures incorrectly coded to #17.260 totaled $140,276 ($8,656 of which was nine items in our sample of 65 transactions). The total expended in fiscal year 2012 for the Program was $7,930,774.
Cause	The exceptions occurred because there is no higher level control in place for the State agencies to reconcile total expenditures reported per the financial reports to the Federal Government to the total expenditures in FSF that are eventually reported on the Schedule of Federal Expenditures of Federal Awards (SEFA) which is extracted from FSF by the Division of Accounting. The State agencies use a Federal Aid Master (FM) document to setup new grant awards in FSF, and the CFDA # on the one FM document was recorded incorrectly in FSF which resulted in the SEFA being incorrect. In addition, State agencies do not review the information entered by the State's Office of Management and Budget (OMB) into FSF per the FM to ensure the information is complete and accurate The errors were not detected by WIA personnel since the process used by the Division of Employment and Training to create financial reports only captured known FSF data and there was no determination of completeness.
Effect	Expenditures may be incorrectly reported for the Program on the SEFA.
Recommendation	We recommend that the Division ensure they are performing reconciliations of expenditures per federal financial reports to expenditures coded to their CFDA #'s in FSF. We also recommend that the Division ensures they are updating Federal Aid Masters for updated Federal regulations and also ensure they review information input into FSF from their grant awards for accuracy and completeness.
Questioned Costs	There are no questioned costs as the issue identified was only a classification error within the State's accounting system and on the SEFA for the year ended June 30, 2012.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	As stated in the conditions, one FM was coded correctly by DOL and keyed incorrectly by OMB. Therefore we do not consider this a DOL error. In response to condition regarding the National Emergency Grant award totaling $675,544 with the effective date of September 1, 2010, please note that the NOO states that the CFDA# is 17.260. (see attached) Therefore, when this grant was loaded into FSF the expenditures were not incorrectly classified on the State's Schedule of Expenditures of Federal Awards. Since the NEG grants both ended on 09/30/12, we will not be making any adjustments to the CFDA# in FSF for FY13. We agree to review FM information after it is input into FSF for accuracy and completeness. And in the future will update our grants in FSF per changes in Federal regulations.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Agency	**U.S. Department of Labor** **Department of Labor** **Division of Employment & Training**
Fiscal Year	**2012**
Reference Number	**12-32**
Related Prior Year Findings	**11-DOL-02**
Related 2013 Findings	**2013-030**
Program Name (CFDA No.)	**Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.278)**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Eligibility**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The Program's Policy is that all Employment Development Plans (EDP) or Individualized Service Strategy Forms (for WIA Youth participants) must be reviewed by management as evidenced by a signature on the face of document. Eligibility checklists also accompany each client file and detail eligibility criteria that must be met, but they are only used as a management tool and are not required per WIA's policy. WIA is required to determine eligibility for all participants based specific criteria, in addition to correctly calculating the benefit to be paid to the participant and ensuring the benefit is discontinued when eligibility expires. Furthermore, in accordance with State Policy an Employment Development Plan should be completed and reviewed for eligible participants.
Condition	The following is considered to be a control exception. For 4 of the 65 Employment Development Plans (EDPs) reviewed, although the clients were determined to be eligible, there was no evidence of proper review by management. The amount of benefits extended to these clients in fiscal year 2012 was $7,010. The total expended in fiscal year 2012 for the program was $7,930,774.
Cause	The exception occurred because the Division needed to strengthen its policies and procedures pertaining to management review of the EDP's and ISS documents. New policies and procedures were implemented during the current fiscal year.
Effect	Without proper supervisor review, claimants who were not eligible under WIA criteria may inappropriately receive benefits from the Program.
Recommendation	The WIA Program should continue to reinforce policies and procedures relating to management review of EDPs including the requirement of management's signature on the face of the EDP.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Questioned Costs	There are no questioned costs as each of the exceptions was correctly determined to be eligible for WIA services.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	It is possible that the questioned folders were reviewed prior to implementation of revised policy. DET will adhere to the current policy and procedures that ensure the review of the EDP includes the signature of the supervisor on the face of the EDP.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Effective March 13, 2014 program policy will be updated to require that the client and case manager signatures be obtained prior to the document being forwarded to the supervisor for signature. The revision ensures necessary signatures are being obtained in a sequential flow and it also eliminates an unnecessary trip to the office for the client.
Anticipated Completion Date (if not Fully corrected).	March 13, 2014

Agency	**U.S. Department of Labor** **Division of Employment & Training**
Fiscal Year	**2012**
Reference Number	**12-33**
Related Prior Year Findings	**11-DOL-04**
Related 2013 Findings	**2013-031** **2013-035**
Program Name (CFDA No.)	**Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.278)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Reporting**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: The Delaware Workforce Investment Act Program is required to file various reports related to its oversight and compliance over the federal funds it receives from the DOL. *ETA-9130, Financial Report (OMB No. 1205-0461)* – All ETA grantees are required to submit quarterly financial reports for each grant award they receive. Reports are required to be prepared using the specific format and instructions for the applicable program(s); in this case, Workforce Investment Act instructions for the following: Statewide Adult; Workforce Statewide Youth; Statewide Dislocated Worker; Local Adult; Local Youth; and Local Dislocated Worker. A separate ETA 9130 is submitted for each of these categories. *ETA-9091, WIA Annual Report (OMB Number 1205-0420)* – Sanctions related to State performance or failure to submit these reports timely can result in a total grant reduction of not more than five percent as provided in WIA Section 136 (g)(1)(B). Reports must be complete, accurate, and prepared in accordance with the required accounting basis as well as trace to accounting records, supporting worksheets or other documentation that link reports to the data.
Condition	The following is considered to be both a control and compliance exception. Based on the review of the financial and performance reports required to be submitted, we found the following: • The 9130 Reports were authorized and reviewed, but the reports did not agree to underlying general ledger resulting in a $1,389 understatement of expenditures. The $1,389 is made up of FY11 ETA 9130 Local Dislocated Worker report ($891) and the FY11 ETA 9130 for Local Adult report ($498). • The 9091 WIA Annual Report was authorized and reviewed; however, the report omitted allowable costs from the general ledger of $62,875.

	The total expended in fiscal year 2012 for the program was $7,930,774.
Cause	The exception occurred because of staff turnover and a mathematical error in the general ledger reconciliation that was not detected in the review process.
Effect	The Program is not properly reporting expenditures to the Federal government, which could result in adjustments to future grants received from the U.S. Department of Labor.
Recommendation	The Program should consider reviewing the process used to prepare the reports and adding an additional level of review to ensure reports are properly presented and agree to the general ledger.
Questioned Costs	There are no questioned costs for the ETA 9130 Reports and the ETA 9091 Report as the errors resulted in understated expenditures of $1,389 for the ETA 9130 Reports and $62,875 for the ETA 9091 Report.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	We have revised our procedures. We now use FSF reports to ensure that all expenses will be captured without the need for downloading and data manipulation for 9130 report preparation. For older grants, we will still need to run a query, download and manipulate the data using excel. For these grants we have included an additional review step to ensure the totals reconcile to the original data.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DET did implement revised procedures as interpreted for this finding. We will need to add an additional level of review for the ETA 9091 report.
Anticipated Completion Date (if not Fully corrected).	June 2014

Agency	**Department of Labor** **Division of Employment & Training**
Fiscal Year	**2012**
Reference Number	**12-34**
Related Prior Year Findings	
Related 2013 Findings	**2013-032**
Program Name (CFDA No.)	**Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.278)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Subrecipient Monitoring, Special Tests and Provisions (ARRA Subrecipient Monitoring)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: **Subrecipient Monitoring:** • *Determining Subrecipient Eligibility* – In addition to any programmatic eligibility criteria under E, "Eligibility for Subrecipients," for subawards made on or after October 1, 2010, determining whether an applicant for a non-ARRA subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 CFR section 25.110 and Appendix A to 2 CFR part 25). • *Central Contractor Registration (CCR)* – For ARRA subawards, identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a DUNS number, and maintaining the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)). This requirement pertains to the ability to report pursuant to Section 1512 of ARRA and is not a pre-award eligibility requirement. Note that subrecipients of non-ARRA funds are not required to register in CCR prior to or after award. • *Award Identification* – At the time of the subaward, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements. For ARRA subawards, identifying to the subrecipient the amount of ARRA funds provided by the subaward and advising the subrecipient of the requirement to identify ARRA funds in the Schedule of Expenditures of Federal Awards (SEFA) and the SF-SAC (see also N, Special Tests and Provisions in this Part).

	• *During-the-Award Monitoring* – Monitoring the subrecipients use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. • *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipients fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipients audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions • *Ensuring Accountability of For-Profit Subrecipients* – Awards also may be passed through to for-profit entities. For-profit subrecipients are accountable to the pass-through entity for the use of Federal funds provided. Because for-profit subrecipients are not subject to the audit requirements of OMB Circular A-133, pass-through entities are responsible for establishing requirements, as needed, to ensure for-profit subrecipient accountability for the use of funds. • *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations. **Special Test: Subrecipient Monitoring – ARRA** Federal agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification in their SEFA and SF-SAC.
Condition	The following are considered to be compliance and control exceptions resulting from the testing of 4 subrecipients out of the population of 12: • For 2 of the 3 Non-ARRA subrecipients tested, WIA (the Program) did not obtain the subrecipients' DUNS numbers before the award was given. The DUNS numbers were received 8 months after the contracts were signed and the first expenditures expended. • For 1 of the 4 subrecipients tested which was a new non-ARRA subrecipient and had expenditures of $58,080 during the fiscal year, we noted the Fiscal Monitoring report was never reviewed by management or sent to the Subrecipient. The site visit occurred during October 2011 and no follow up of the control issues noted during the site visit was done by the Program as of December 2012. There were no questioned costs identified during the monitoring. • Another non-ARRA subrecipient's fiscal monitoring visit was conducted in April 2012, the report was sent to the subrecipient with a list of issues found giving the subrecipient 30 days to respond. As of December 2012, no support had been received from the

	subrecipient nor had the Program followed up with the issues found. The subrecipient had expenditures of $109,465 of which $14,995 was questioned during the monitoring visit. • Another subrecipient's fiscal monitoring visits were conducted in December 2011 and January 2012. The fiscal monitoring report was sent to the subrecipient with the list of issues found giving the subrecipient 30 days to respond. As of December 2012, no support had been received nor had the Program followed up with the issues found. This ARRA subrecipient had expenditures of $30,796 of which $111 was determined to have been underpaid during the monitoring visit. • We found the two above non-ARRA subrecipients with expenditures of $58,080 and $109,465 were new during the year and the Program did not request to see any prior A-133 Reports before they were selected as subrecipients to receive federal funding. • One of the four samples tested for subrecipient monitoring had ARRA related expenditures of $30,796 which represented total expenditures to the subrecipient. While the contract contained standard contract language acknowledging "contractor acknowledges and agrees that the federal, Single Audit Act, 31 U.S.C 7501-7505, and OMB A-128 or A-133 audits will apply to this program as a condition for federal funding", there was no specific ARRA laws or regulations reference. There was no language indicating that the subrecipient must register in the Central Contractor Registration (CCR) or that they must provide for separate identification in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form. The amount passed through to subrecipients in fiscal year 2012 was $1,448,029. The total expended in fiscal year 2012 for the program was $7,930,774.
Cause	The exceptions occurred because WIA was in the process of implementing new subrecipient monitoring policies and procedures during the year. The new policies and procedures did not encompass all compliance requirements leading to WIA to not effectively monitoring all the subrecipients that were selected. In addition, a standard contract template was used for all subrecipient contracts; however, ARRA laws and regulations and specific ARRA requirements were not added to the standard template for the one subrecipient who received ARRA funding.
Effect	The Program is not fulfilling its subrecipient monitoring responsibilities and the 12 subrecipients utilized during the fiscal year could potentially not be meeting federal requirements.
Recommendation	The WIA Program should ensure that they have adequate subrecipient monitoring procedures in place and are following them for all subrecipients monitored during the year. The Program should also ensure when selecting subrecipients at the beginning of the year, that they review support that the subrecipients are adequate to receive federal funding. In addition, they should ensure WIA ARRA contracts contain language regarding ARRA laws and regulations as well as specific requirements that apply to subrecipients being paid with ARRA funding.
Questioned Costs	Questioned costs are $14,995 for expenditures identified and questioned during the monitoring visit for the three subrecipients noted above.
Agency Contact Name	***Kris Brooks, DOL Controller***

Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	DET will ensure that the sub-recipient monitoring procedures incorporate all compliance requirements so that we can effectively monitor all selected sub-recipients. DET will also address the issue of ensuring fiscal stability for each new sub-recipient that is awarded a contract through the bid proposal process before a contract is written.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DET did implement new procedures during FY-13. However, contracts are done on an annual basis so the collection of the DUNS number and evidence verifying the financial stability of the sub-contractor was incorporated into the RFP that went out in January 2014 for contracts starting in June.
Anticipated Completion Date (if not Fully corrected).	January 2014

Agency	**U.S. Department of Labor** **Division of Employment & Training**
Fiscal Year	**2012**
Reference Number	**12-35**
Related Prior Year Findings	**11-DOL-05**
Related 2013 Findings	**2013-034**
Program Name (CFDA No.)	**Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.278)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Allowable Costs (Effort Reporting)**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: Per Circular A-87, Item #8, Compensation for Personal Services, Section (3h) & (4e): (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: (a) More than one Federal award, (b) A Federal award and a non-Federal award, (5) Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee, (b) They must account for the total activity for which each employee is compensated, (c) They must be prepared at least monthly and must coincide with one or more pay periods, and

	(d) They must be signed by the employee. (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.
Condition	The following is considered to be both a control and compliance exception. Payroll funding reconciliations used to reconcile the State's payroll database (PHRST) and WIA's internal time software (Autotime) were performed for all four quarters during the fiscal year but none of the adjustments are recorded and 46 out of 65 samples tested that required payroll funding adjustments with a net effect of ($8,351) were not recorded. The total adjustment needed to reconcile all four quarter reconciliations is ($4,121). In addition, three of our 65 samples were employees from the Department of Education (DOE). The employees did not submit Time and Effort (T&E) reports during the fiscal year. The employees' salaries charged to the WIA program were $3,630. The population of payroll transactions in fiscal year 2012 subject to testing was $2,003,513 while the total expended for the program was $7,930,774.
Cause	The exceptions occurred because the WIA Program was in process of implementing new payroll policies during the fiscal year. As such, payroll funding reconciliations were not done timely. In addition, the DOE employees use contract percentages for billing to the Program.
Effect	The Program is not properly reporting payroll expenditures for the year ended June 30, 2012 since the PHRST data has not been updated to account for the adjustments needed during the year and the correct time worked on the Program's projects.
Recommendation	The Program should ensure subrecipients are using the correct percentages of time worked on their Projects within the payroll database. The Program should also ensure they are following procedures and policies regarding payroll funding reconciliations and the corresponding adjustments being reviewed and then adjusted in First State Financials in a timely manner after year end.
Questioned Costs	There are no questioned costs for the PFA error as the federal grant was undercharged. The three samples from DOE amount to $3,630.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	DET will ensure that the sub-recipients are using the correct percentages of time worked on their projects within the payroll data base during our scheduled fiscal monitoring visits. We will also continue to monitor the monthly financial reports expenditures submitted against the approved budget in the contract to ensure they do not exceed the line items.
Finding Status	Fully Corrected. ☐ Not Corrected or Partially Corrected. ☒ Action taken different than original Corrective Action Plan. ☐

	No longer warranting further action.☐
Description of Status	DET did not make the annual payroll adjustment timely during FY-13 due to the process of implementing new payroll policies and staff turnover.
Anticipated Completion Date (if not Fully corrected).	April 30, 2014

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Agency	**U.S. Department of Labor** **Division of Unemployment Insurance**
Fiscal Year	**2012**
Reference Number	**12-36**
Related Prior Year Findings	
Program Name (CFDA No.)	**Unemployment Insurance (17.225, S-17.225)**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Cash Management**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The timing of the cash drawdown should be within the proper period and should trace and agree to supporting documentation. All drawdowns must have adequate segregation of duties between preparing the drawdown and reviewing the drawdown as evidenced by the signature of an authorized preparer and signer on the drawdown support.
Condition	The following is considered to be a control exception. For two out of fourteen cash drawdowns tested totaling $752,984, there was no evidence of independent preparation and review. Both samples were properly reviewed and signed by management, but the preparer did not sign off on the drawdown. Total drawdowns selected for sampling was $3,683,447. The total population of drawdowns subject to testing was $13,036,776 while total expenditures for the program were $249,596,643.
Cause	The exception occurred because the UI Program had turnover during the year. The newly hired staff was learning UI's policies and procedures and the lack of a preparer's signature on the drawdowns was an oversight attributable to learning the new process.
Effect	Without a preparer and management review control in place, UI may request funds in a manner which is not in compliance with the CMIA Agreement.
Recommendation	We recommend that UI enforce its federal drawdown procedures to ensure there is both a preparer and reviewer signature on each drawdown.
Questioned Costs	There are no questioned costs as amounts agreed to underlying general ledger reports (DAR006 Reports) and were for actual expenditures.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	DUI has revised their drawdown procedures to require two signatures on the drawdown request form. In addition, they have requested that the Office of Administration not process any drawdown requests that do not have two UI fiscal staff signatures.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Agency	**U.S. Department of Transportation**
Fiscal Year	**2012**
Reference Number	**12-37**
Related Prior Year Findings	**N/A**
Related 2013 Findings	**2013-041**
Program Name (CFDA No.)	**Federal Transit Cluster (20.500, 20.507, S-20.507)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Reporting**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: The Federal Transit Cluster program is required to report quarterly in SF-425 Federal Financial Reports the expenditures incurred by the program, which should agree with the accounting records of the State.
Condition	The following is considered to be both a control and compliance exception. During our review of 7 SF-425 Federal Financial Reports, we identified 7 of the 7 reports tested agreed to the supporting documentation provided; however, the supporting documentation could not be reconciled back to the State's financial accounting system, First State Financial (FSF). The reported federal share of the expenditures was $580,622 for the 7 reports, and the amount reported in FSF cannot be determined. The total population of SF-425 reports subject to testing amounted to $7,310,718 of the total $7,310,718 of expenditures for this program.
Cause	On a monthly basis, FSF expenditure data is downloaded into excel, and is then manually adjusted, by a Delaware Department of Transportation (DelDOT) Information and Technology personnel, to identify the expenditures relating to the Federal Transit Cluster program (FTC). We were unable to observe any evidence of review of the process, or evidence of any Federal expenditure reconciliations prepared by management to ensure the modified reports were complete and accurate. The Department of Transportation does not have policies or procedures in place to document the completeness and accuracy of the trail of expenditure data from FSF to what is being reported in its SF-425 reports.
Effect	Failure to properly document the bridge of expenditure information reported can lead errors in federal reports and not provide data for a supervisory review.
Recommendation	We recommend that the Department put in place policies and procedures such as reconciliations and proper review and approval of the information being reported in SF-425 reports. We recommend that management also additionally consider restructuring FSF coding to enable direct reporting from FSF.
Questioned Costs	Questioned costs are not determinable.

STATE OF DELAWARE
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Agency Contact Name	***Beverly Swiger, DelDOT***
Agency Contact Phone Number	***(302) 760-2090***
Corrective Action Plan	The department understands this finding and has already identified this as a performance need. DelDOT Finance is in the process of hiring a Fiscal Management Analyst who will have responsibility for this function. The Controller and Director of Finance have held previous discussions with the Director of Accounting and the First State Financials (FSF) Manager regarding this matter and DelDOT is committed to improving this process. The newly hired Fiscal Management Analyst will work closely with Division of Accounting (DOA) staff to see what requirements are needed in order to provide more detailed reports that will produce data that can be verified against other source and systematically reconciled. DelDOT will also work with the FSF team to inquire about the ability to add the CFDA number into a field in one of the modules in FSF. This will allow for more detailed reports without the need to run various queries that cannot be reconciled between various systems.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The department has addressed this issue by having our IT staff person complete a documented approach to his reporting structure. He created a published instruction booklet which outlines each step of the process. He then saves each query that is used. When completed, a certification documented is prepared. A member from our Internal Audit section reviews and signs the certification document once he verifies the validity of the process. The final report(s) are locked so that changes cannot be made by others. KPMG Auditors met with this staff person on 8/6/13 to review the process.
Anticipated Completion Date (if not Fully corrected).	This has been corrected in FY14 so the anticipated completion date is 8/6/13.

STATE OF DELAWARE
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Agency	**U.S. Department of Transportation**
Fiscal Year	**2012**
Reference Number	**12-38**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Highway Planning and Construction Cluster (20.205, S-20.205, 20.219)**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Real Property Acquisition and Relocation Assistance**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Property acquired must be appraised by qualified independent appraisers. After acceptance, the review appraiser certifies the recommended or approved value of the property for establishment of the offer of just compensation to the owner (49 CFR part 24). According to the Department's policies over property acquisitions, a manager is required to sign the negotiation record/assignment sheet to show review and approval to prepare the offer to the property owner.
Condition	The following is considered to be a control exception. During our review of 37 files related to property acquisitions, we identified 1 file where there was no evidence of management review of the negotiation record/assignment sheet for a $29,920 transaction. The total population of real property acquisition payments subject to testing amounted to $10,098,985 of the total $192,172,135 of expenditures for this program.
Cause	Failure by management to sign-off on the negotiation record/assignment sheet was an oversight.
Effect	Failure to properly review the negotiation record/assignment sheet could lead to non-compliance with federal regulations, or inappropriately supported transactions.
Recommendation	We recommend that the Department ensures that there are policies and procedures in place to evidence management review and approval of the negotiation record/assignment sheet prior to acquiring real property.
Questioned Costs	There are no questioned costs associated with this finding as the payment was supported by an appraisal.
Agency Contact Name	Earle Timpson on behalf of Robert Cunningham, DelDOT Assistant Director of Right of Way (ROW)
Agency Contact Phone Number	***Earle: (302) 760-2678; Bob: (302) 760-2078***
Corrective Action Plan	DelDOT ROW managers will be instructed to be sure to sign all negotiations record/assignment sheets prior to assigning the case. In addition, the ROW manual will be amended to specifically state the need for a management signature prior to negotiations being assigned.

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Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The ROW manual was revised on May 1, 2013 to reflect that all assignment sheets must be signed prior to cases being delegated in writing. In addition, the signature form must be signed by a ROW manager.
Anticipated Completion Date (if not Fully corrected).	Fully corrected

Agency	**U.S. Department of Interior** **Department of Natural Resources and Environmental Control**
Fiscal Year	**2012**
Reference Number	**12-39**
Related Prior Year Findings	
Program Name (CFDA No.)	**Fish and Wildlife Cluster (15.605, 15.611)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Allowable Costs, Period of Availability**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance exceptions: To be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1): a. Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs). b. Be allocable to Federal awards under the provisions of A-87 (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.) c. Be authorized or not prohibited under State or local laws and regulations. d. Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items. e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost. g. Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87. h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation. i. Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.) j. Be adequately documented.
Condition	The following is considered to be the compliance exception. In a sample of 65 expenditures totaling $5,496,910, DNREC could not provide supporting documentation for two expenditure transactions totaling $13,405. As a result, we were unable to test these transactions for compliance with allowable costs requirements of A-87. Both transactions occurred within the period of availability for each respective project.

	The following is considered to be the control exception. DNREC uses a routing slip on all expenditure transactions to document internal and program management review and approval of the allowability of costs, and a review that costs are incurred within the period of availability, prior to processing within FSF. This routing slip is attached to the invoice or other related supporting documentation for transactions. Although there were FSF workflow approvals for the two expenditures referenced above, we were unable to test the routing slip approval process that documents a review of compliance with allowable costs and period of availability requirements, due to the lack of supporting documentation for the transactions. The total expended for the program in fiscal year 2012 was $9,019,321.
Cause	The exceptions occurred because program management did not maintain appropriate supporting documentation for all expenditure transactions, or routing slip approvals for all transactions.
Effect	Without supporting documentation and an effective management review process, unallowable transactions may be charged to the program and/or charges to projects may not be in compliance with period of availability requirements.
Recommendation	DNREC should ensure that supporting documentation is maintained for all federal expenditures. In addition, DNREC should ensure that routing slips documenting management review and approval of expenditures are maintained with supporting documentation for all transactions.
Questioned Costs	Questioned costs are $13,405, the dollar value of the two transactions that did not have appropriate supporting documentation.
Agency Contact Name	***Carrie Erickson, Controller II***
Agency Contact Phone Number	***(302) 739-9055***
Corrective Action Plan	DNREC will ensure that proper supporting documentation is maintained in the vendor files for all federal expenditures. One missing document was located and the second document was re-established for proper filing through electronic records and invoice retrieval from vendor.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Agency	**U.S. Department of Interior** **Department of Natural Resources and Environmental Control**
Fiscal Year	**2012**
Reference Number	**12-40**
Related Prior Year Findings	
Program Name (CFDA No.)	**Fish and Wildlife Cluster (15.605, 15.611)**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Cash Management**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.
Condition	DNREC does not have a management review/approval control in place to review drawdowns for compliance with cash management requirements prior to submission, nor is there segregation of duties in the calculation and processing of drawdown requests.
Cause	Management did not have a sufficient internal control structure in place over cash drawdowns as required by the A-102 Common Rule.
Effect	Without a management review control in place or proper segregation of duties, DNREC may request funds in a manner that is not in compliance with the terms of grant agreements.
Recommendation	We recommend that DNREC implement internal control policies and procedures to ensure that there is an adequate level of supervisory review of the cash draws prior to submission to the Department of the Interior and to ensure proper segregation of duties over the cash management function.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	***Carrie Erickson, Controller II***
Agency Contact Phone Number	***(302) 739-9055***
Corrective Action Plan	DNREC concurs with the finding as it has already implemented tighter internal controls on federal reimbursements as of July 2012. Two fiscal staff members prepare and approve every federal reimbursement. Secondly, as a result of this finding, an internal control procedure shall be implemented ensuring a second review of the reimbursement documentation occurs prior to requesting funds by an internal approver or business manager. Once funds are received, an accounts receivable document will be prepared by a grant specialist and approved by a business manager.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	

Anticipated Completion Date (if not Fully corrected).	

Agency	**U.S. Department of Education** **Department of Finance**
Fiscal Year	**2012**
Reference Number	**12-41**
Related Prior Year Findings	
Related 2013 Findings	**2013-011**
Program Name (CFDA No.)	**Title I Grants to Local Educational Agencies (84.010, S-84.389)** **Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)** **State Fiscal Stabilization Fund Cluster (S-84.394)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Equipment and Real Property Management**
Criteria	Control exceptions: The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The State of Delaware's Budget and Accounting Policy Manual, Section 13.2.3, states, "The federal threshold for asset tracking is $5,000, which is lower than the State's CAPITAL asset threshold. Agencies are responsible for ensuring that all assets valued between $5,000 and $25,000 that are purchased with federal funds are properly accounted for in the agency's NOCAP records. Assets valued above $25,000 that are purchased with federal funds are maintained in the State's CAPITAL asset listings." Compliance exceptions: Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of $5000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established. A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State. Local governments and Indian tribes shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. A-102 Common Rule requires that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. When equipment with a current per unit fair market value of $5000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of

	Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.
Condition	The following is considered a control and compliance exception. The State-wide fixed asset register within FSF identifies equipment with a purchase price of at least $25,000 that was acquired with federal funds. However, the register does not include detail of the equipment by each individual federal award (i.e. CFDA #), and does not include equipment purchases between $5,000 and $25,000. In addition, certain individual state departments that administer federal programs do not maintain a subsidiary ledger outside of FSF in order to track and inventory federally funded equipment greater than the $5,000 threshold, or to be able to rollforward the purchase and disposal activity during the fiscal year. Although many of the programs at the State have equipment purchases that are not significant to the overall federal programs, the three major programs cited (Title I, Special Education, and SFSF) had material purchases of equipment using federal awards. For each of these programs, the State could not provide a complete inventory or rollforward of equipment purchased with federal funds for the period 7/1/11 to 6/30/12.
Cause	There are no department level policies or procedures in place for the managers of federal programs to maintain rollforwards for equipment year to year to keep a proper inventory of federally funded equipment and certain equipment data is not captured in the State-wide fixed asset register.
Effect	The Programs could be purchasing or disposing of equipment in a manner inconsistent with what is required by federal regulations.
Recommendation	We recommend policies and procedures are reinforced to ensure that the various departments maintain equipment roll forwards to show total accumulated purchases and disposals as well as conducting a biannual inventory to validate the accuracy of the lists. This could be accomplished with coding to FSF property records or a separate subsidiary fixed asset ledger.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	***Kristopher Knight, Director of Division of Accounting; Eulinda DiPietro, Education Associate***
Agency Contact Phone Number	***(302) 672-5500; (302) 735-4016***
Corrective Action Plan	Capital Asset reporting and monitoring requirements vary by Federal Sponsor. As noted in the Criteria section above, the Division of Accounting (the Division) requires each agency to ensure compliance with applicable grant agreements. Further, all State agencies are expected to adhere to the policy prescribed in the Budget and Accounting Manual. The Division also facilitates a State-wide annual capital asset inventory. Going forward, we will continue to reinforce the Division practices in efforts to ensure greater compliance with federal guidelines.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The Division continues to reinforce Capital Asset Reporting policies and facilitate the State's capital inventory each year to ensure compliance with applicable laws and

	regulations. The Delaware Department of Education was not made aware of the specifics involved in Finding 12-41 until contacted by the U.S. Department of Education in 11/2013. Additionally, DOE was not consulted when the correction action plan was developed by the Division of Accounting, which impeded DOE from implementing programmatic changes or providing additional technical assistance sessions. Policies and procedures are available on DOE's website and are reinforced during the annual Consolidated Application training. Now that the Delaware Department of Education is aware of the finding, we will determine whether further training is necessary to ensure compliance with federal requirements.
Anticipated Completion Date (if not Fully corrected).	June 2014

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

Agency	**Department of Health and Social Services** **Division of Child Support Enforcement**
Fiscal Year	**2011**
Reference Number	**11-CSE-01**
Related Prior Year Findings	**10-CSE-03**
Program Name (CFDA No.)	**Child Support Enforcement (93.563, S-93.563)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Special Tests and Provisions (Establishment of Paternity and Support Obligations)**
Criteria	The IV-D agency must attempt to establish paternity and a support obligation for children born out of wedlock. The agency must establish a support obligation when paternity is not an issue. These services must be provided for any child in cases referred to the IV-D agency or to individuals applying for services under 45 CFR Section 302.33 or 45 CFR Section 309.65(a)(2) for whom paternity or a support obligation had not been established (45 CFR Sections 303.4 and 303.5, 45 CFR Sections 309.100 and 309.105). For State IV-D agencies, these services must be provided within the time frames specified in 45 CFR Sections 303.3(b)(3) and (b)(5), 303.3(c) and, 303.4(d).‖ According to the DCSE Policy Manual as well as the Child Support Enforcement Code (45 CFR 308.2(b)(1)), after locating the alleged father of the child, the Child Support Enforcement Office has 90 days in order to establish or attempt to establish paternity as well as establish a support obligation order.
Condition	For 12 of 65 support obligation cases sampled, paternity was not established or attempted to be established within the required timeframes for children born out of wedlock. On average, the cases were 180 days beyond the timeframe set within the policies and procedures.
Cause	Noncompliance with the establishment of paternity and support obligations was due to lack of oversight by the assigned case employee and supervisor or a shortage of staff at the agency or the Attorney General's Office who processes support petitions. Per discussion with Program management, the cause of this noncompliance relates to Family Court dealing with backlog issues of court cases and filling of petitions. Currently there is a shortage of attorneys within the Attorney General's office resulting in cases not being filed and completed within the required allotted timeframe.
Effect	If action is not taken within the required timeframe to establish paternity, when applicable, court petitions and support obligations cannot be conducted timely.
Recommendation	We recommend that Child Support Enforcement management work with the Attorney General's Office to reduce the noted backlog.
Questioned Costs	Questioned costs associated with this finding are not applicable as this is an attribute of program activity.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	The Division of Child Support Enforcement (DCSE) recognizes that establishment of paternity and getting cases through to the court must be improved. The number of Child Support Specialist and administrator/supervisor positions has decreased over the past 4 years

	at the same time as an approximate 25% increase in the caseload. These two factors have contributed to our inability to meet established timeframes. During the week of January 16, 2012, DCSE was notified that we will be given a combination of 6 new full and part time Child Support Specialist positions, all of which will be deployed to assist with establishment. DCSE has also designated a child support specialist to be deployed to Christina Hospital, the state's largest birthing facility. That CSS will work with hospital staff and new un-wed parents to complete voluntary acknowledgments of paternity (VAP). If the parents ever seek child support orders through DCSE having the VAP in place will greatly expedite the adjudication of paternity and the establishment of new support orders. DCSE caseworkers will be undertaking large scale paternity establishment and case closure projects in order to increase the number of paternities established in the IV-D caseload. This will involve a greater level of outreach to our custodial parents. The hope is that as a result, better information will be gathered to expedite the generating and filing of New Support petitions with the Family Court in Delaware. DCSE management has a robust working relationship with the Delaware Department of Justice (DOJ), Family Services Unit. When the DCSE caseworker generates a New Support Petition, the petition is turned over to an Administrative Support Specialist for logging into an Access databases. Once completed, an email is sent to the paralegal at the DOJ informing them of the total number of petitions (broken down by type) being sent to them by courier. The DCSE courier delivers and retrieves mail daily from the DOJ. In addition, DCSE is in the process of developing and implement a new information system to replace DACSES. The new system, called DECSS (Delaware Child Support System) is designed to expedite the exchange of information with the DOJ and to automate the as much as possible the moved of cases through the establishment process. The petitions will be passed electronically as data to the DAG's for review and approval, and when approved will be sent electronically to the Family Court. We expect that the elimination of transferring paper to multiple destinations will reduces the paternity establishment and the support order issuance process significantly. DECSS is scheduled for implementation in October, 2013. New Support Petitions are a quick turnaround by the attorneys at the DOJ. DCSE management is going to implement the following processes internally and with the DOJ to ensure timely filings of new support petitions with the Family Court in order to not hamper the establishment of paternity in new child support cases. 1) DCSE management will work with the DOJ to ensure that new support petitions are acted upon first. 2) Each Friday, the Administrative Support Staff will query the Access data base to determine how many petitions are pending approvals at the DOJ. Any unsigned petitions with the DOJ for more than 2 weeks will be addressed with the paralegal. 3) E-mails will be sent to the paralegal at the DOJ when it has determined that the number of petitions located at the DOJ appears to be high. 4) Reminders monthly will be sent to the Child Support Specialists, by DCSE management ensuring that they can electronically transmit the signed petition to Family Court. 5) DCSE management will request Quarterly meetings with the Service of Process vendor to work out any challenges that are affecting timely service of noncustodial parents.
Finding Status	Fully Corrected.☐

	Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	Staff at the Division of Child Support Enforcement believes that there will always be a need to strictly monitor paternity establishment efforts statewide. As a result, many of the objectives proposed will be ongoing in order to ensure compliance. DCSE was granted permission from DHSS to hire four seasonal employees (29.75 hours) in New Castle County to specifically focus their efforts on paternity establishment. These 4 positions are still within the DCSE staffing complement although there has been some turnover of three of the four seasonal positions they are all staffed at this time. It is worth noting that one employee in the seasonal positions is a returning employee who is retired from the state. Additionally, we were able to return an employee to their previous Child Support Specialist position from Long Term Disability. All new employees are undergoing an extensive training program. 1) DCSE caseworkers have begun to undertake the annual large scale paternity establishment and case closure projects in order to increase the number of paternities established in the IV-D caseload. Although DCSE staff establish paternity and close child support as part of normal case processing activities, each year as the federal fiscal year begins to come to a close, DCSE management with the assistance of the systems unit provide Child Support Specialist in each office with a list of cases to work for paternity establishment. This will involve a greater level of outreach to our custodial parents. The hope is that as a result, better information will be gathering to expedite the generating and filing of New Support petitions with the Family Court in Delaware. Establishment staff in all three offices are working extremely hard to meet with custodial parents in order to gather information (paternity/locate) in order to get the case processes. The practice in New Castle County office of the 13 establishment staff scheduling 10 interviews a week per employee has continued. All operation's staff has been authorized to volunteer to work late on Wednesday night for compensatory time in order to close child support cases. The below information represents the number of paternities established for cases closed statewide through May 2012.

Paternity Establishments by Month 2012		**Paternity Establishments by Month 2013**	
January 15, 2012 to January 31, 2012	292	January 16, 2013 - January 30, 2013	146
February 1, 2012 to February 29, 2012	589	January 31, 2013 - February 15, 2013	257
February 29, 2012 to March 30, 2012	501	February 16, 2013 - February 27, 2013	447
April 1, 2012 to April 28, 2012	495	February 28, 2013 - March 27, 2013	516
May 1, 2012 to May 31, 2012	629	March 28, 2013 - April 29, 2013	684
June 1, 2012 to June 28, 2012	451	April 30, 2013 - May 30, 2013	506
June 29, 2012 to July 30, 2012	697	May 31, 2013 - June 27, 2013	413
July 31, 2012 to August 30, 2012	818	June 16, 2013 - June 27, 2013	699
August 31, 2012 to September 15, 2012	259		
Total	**4,731**	Total	**2,998**

Cases Closed by Month

2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
Kent	326	148	282	205	225	179	139	150	279	147	152	171	2,373
NCC	325	459	594	463	767	586	552	755	1539	811	581	336	7,768
Sussex	222	209	219	182	219	192	307	252	256	233	201	282	2,774
Total	873	816	1065	850	1,211	957	998	1157	2074	1191	934	789	12,915

2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Tot
Kent	189	169	194	336	188	257							1,333
NCC	574	362	489	503	367	343							2,638
Sussex	220	125	184	205	252	205							1,191
Total	983	656	867	1,044	807	805							5,162

2) DCSE management will work with the DOJ to ensure that new support petitions are acted upon first. **Update: We continue to communicate with the DOJ periodically, ensuring that they understand the importance of procession new support petitions. New Support petitions are separated prior to being sent to the DOJ so the documents are acted upon first. Additionally we communicate via e-mail with the DOJ and Family Court on the number of petitions being sent o the DOJ for Signature.**

3) Each Friday, the Administrative Support Staff will query the Access data base to determine how many petitions are pending approvals at the DOJ. Any unsigned petitions with the DOJ for more than 2 weeks will be addressed with the paralegal. **No Update: After working with the Information Resources Management staff it was determined that the functionality of querying the Access database is not possible. Administrative staff still uses Microsoft Access as a means of tracking petitions sent to and returned from the Department of Justice. In lieu of being able to query an electronic system, Support staff that oversee the transfer of documents to the DOJ, have been instructed to be cognizant of the flow of documents between offices. When there has been a lull in returned petitions they have been informed to notify the manager.**

4) E-mails will be sent to the paralegal at the DOJ when it has determined that the number of petitions located at the DOJ appears to be high. **No Update: The manager, when necessary will notify the DOJ, in order to ensure there is a flow of petitions between the two offices. There has not been a need to take this action.**

5) Reminders monthly will be sent to the Child Support Specialists, by DCSE management ensuring that they can electronically transmit the signed petition to Family Court. **Update: During the previous reporting period, there has not been a need to send out reminders to staff to electronically transmit their petitions to Family Court, Family Court has not notified DCSE management that there is a shortage of filings to be processed. Staff is transmitting filings as soon as they are signed and returned to them.**

	6) DCSE management will request Quarterly meetings with the Service of Process vendor to work out any challenges that are affecting timely service of non-custodial parents. **No Update: While meetings have not been occurring on a scheduled basis, when issues arise related to serving a non-custodial parent or billing DCSE has open lines of communication via telephone conversations with the contractor to work out challenges.**
Anticipated Completion Date (if not Fully corrected).	The anticipated completion dates for the above 6 points are as follows. 1) DCSE caseworkers will be undertaking large scale paternity establishment and case closure projects, etc.: **Anticipated Completion Date: *Ongoing*** 2) DCSE management will work with the DOJ to ensure that new support petitions are acted upon first. **Anticipated Completion Date: *Ongoing*** 3) Each Friday, the Administrative Support Staff will query the Access data base to determine how many petitions are pending signatures at the DOJ, etc.: **Anticipated Completion Date: *Ongoing,* but cannot be completed via an Access database query but in the alternate method outlined above.** 4) E-mails will be sent to the paralegal at the DOJ when it has determined that the number of petitions located at the DOJ appears to be high. **Anticipated Completion Date: *Ongoing*** 5) Reminders monthly will be sent to the Child Support Specialists, by DCSE management ensuring that they can electronically transmit the signed petition to Family Court. **Anticipated Completion Date: *Ongoing*** 6) DCSE management will request Quarterly meetings with the Service of Process vendor to work out any challenges that are affecting timely service of non-custodial parents. **Anticipated Completion Date: *Ongoing and as needed***

Agency	**Department of Health and Social Services** **Division of Child Support Enforcement**
Fiscal Year	**2010**
Reference Number	**10-CSE-02**
Related Prior Year Findings	**09-CSE-01**
Program Name (CFDA No.)	**Child Support Enforcement (93.563, S-93.563)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Special Test and Provisions- Enforcement of Support Obligations**
Criteria	**Enforcement of Support Obligations (Per A-133 June 2010 Compliance Supplement)** For all cases referred to the IV-D agency or applying for services under 45 CFR section 302.33 or 45 CFR section 309.65(a)(2) in which an obligation to support and the amount of the obligation has been established, the agency must maintain a system for (a) monitoring compliance with the support obligation; (b) identifying on the date the parent fails to make payments in an amount equal to support payable for one month, or an earlier date in accordance State or tribal law, those cases in which there is a failure to comply with the support obligation; and (c) enforcing the obligation. To enforce the obligation the agency must initiate income withholding, if required by and in accordance with 45 CFR section 303.100 or 45 CFR section 309.110. State IV-D agencies must initiate any other enforcement action, unless service of process is necessary, within 30 calendar days of identification of the delinquency or other support-related noncompliance, or location of the absent parent, whichever occurs later. If service of process is necessary, service must be completed and enforcement action taken within 60 calendar days of identification of the delinquency or other noncompliance, or the location of the absent parent whichever occurs later. If service of process is unsuccessful, unsuccessful attempts must be documented and meet the State's guidelines defining diligent efforts. If enforcement attempts are unsuccessful, the State IV-D agency should determine when it would be appropriate to take an enforcement action in the future and take it at that time (45 CFR section 303.6). Optional enforcement techniques available for use by the State's are found at 45 CFR sections 303.71, 303.73, and 303.104.
Condition	For 1 of 65 support obligation cases sampled, the non-custodial parent (NCP) was delinquent on paying child support for more than 60 days and the agency did not initiate enforcement (i.e. court petition) within the required timeframes.
Cause	Non-compliance with the enforcement of support obligations was due to lack of oversight by the assigned case employee worklist and supervisor.
Effect	If action is not taken within the required time frames, the client (custodial parent) may not receive the child support payments entitled to them.
Recommendation	We recommend that management strengthen internal controls, including the following initiatives: 1. Worklist management initiative 2. Training initiative 3. Redistribution of caseloads

	4. Division of Child Support Enforcement/Division of Social Services interface 5. New DACES system
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	While DCSE concurs with the findings, we are also pleased with the progress made in this area since last year's Single Audit. The Division of Child Support Enforcement has taken and will continue to take the following corrective actions in response to this finding. The following points address the recommendations contained in the finding in the order they are listed. • **Work list management initiative** Phase I: Eliminate the creation of duplicate work list items. **Completed September 5, 2004** Phase II: Consolidation of the creation of the work list items, including a new hierarchy of the work list items. **Completed April 17, 2005** Phase III: Will adjust the processing and timing of interstate related cases and remove the isolated absent parent locate function (APLS), giving that function to all caseworkers. **Completed June 20, 2007** Phase IV: All processes and work lists should allow cases to be worked until eventual completion without the indefinite suspension of any case minus some form of notification or processing by an automated function. The second goal of this phase requires an analysis of the priority schemes applied to Work List items. **Completed June 2010** Phase V: Evaluation Completion of the total Work List Management initiative was completed in December 2010, with that being said management will from time to time work with Division systems staff to ensure Worklist functionality is still meeting the intent of this initiative. • **Training initiative** DACSES Work List Management training was conducted statewide with division employees. In accordance with this recommendation, the training was part of the ongoing work-list management initiative to assist DCSE staff with better manage of their overall caseload and in accordance with Federal case processing guidelines. The training was developed to enable staff to be able to navigate and manage a work-list utilizing the new functionalities in the Work List Management screen. Work List

	Management training will continue on a regular basis to DCSE employee. **Completed June 9, 2006, June 21, 2006, January 27, 2010, and March 31, 2010. The DCSE Training Unit during the past fiscal year (2010) conducted seven Worklist Maintenance classes for approximately 18 operation's unit staff.** This will continue to be an ongoing process as the DCSE Training Unit offers an open computer lab for staff to fine tune work list management skills. • **Redistribution of caseloads** DCSE will redistribute caseloads so that staff is responsible for specific tasks on multiple types of cases. To do this, Child Support Specialists (CSS) will be placed into two primary functional categories: Establishment Workers and Enforcement Workers. Establishment Workers will be responsible for a case from the time of application/intake until the time a support order is established. Among their primary duties (in addition to establishing an order) will be parent locate and paternity establishment. Enforcement Workers will be responsible for a case from the time the order is recorded until the case is closed, taking all required enforcement and modification action necessary to properly work the case. There will be two exceptions to the Caseload Redistribution initiative. Dedicated workers will handle Foster Care cases and cases in which the Non-Custodial Parent resides out of state (known as APO cases), from intake to case closure. A statewide Foster Care Unit will be established in New Castle County, while APO workers will be deployed in each county. Mandatory training that covers all aspects of case processing remains in development and will be provided to all Child Support Specialists prior to the redistribution of cases. **Completed January 22, 2008** • **Division of Child Support Enforcement/Division of Social Services interface** Our automatic interface of medical insurance information with the Division of Social Services /Medicaid began May 16, 2008. DCSE staff no longer needs to send paper copies of our DCSE medical questionnaire to the Medicaid office, as information entered into DACSES is sent via the interface once a month. Effective October 2008, DACSES now enters a notation on the case events screens when information is sent via the interface. The entry will appear for all cases sent to Medicaid, starting with May 2008 data. **Completed October 2008** **The DSS interface will be reengineered with the implementation of the new DACSES system scheduled for completion in FY 2013.** • **New post-court DACSES screen- (action taken different than original corrective action plan);** The data necessary for the medical interface is currently captured in other areas of DACSES. Management has decided not to implement the post-court screen and will

	upgrade the existing functionality when DACSES is replaced. • **National medical support notice** DCSE fully implemented the National Medical Support Notice. **Completed July of 2004** • **New DACSES system (partially corrected)** DCSE received approval of the Implementation Planning Document and the RFP for solicitation of an implementation vendor in May 2009. The RFP was issued in July of 2009 and the bids were returned in September 2009. Currently DCSE is in active negotiations with vendors for both the implementation activities and the quality assurance services. The contracts will be submitted to OCSE in March 2010 for approval and project kickoff is anticipated for May 1, 2010
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The two items identified below remain as ongoing efforts. They are **Training initiative and New DACSES system.** • **Training initiative** DACSES Work List Management training was conducted statewide with division employees. In accordance with this recommendation, the training was part of the ongoing work-list management initiative to assist DCSE staff with better manage of their overall caseload and in accordance with Federal case processing guidelines. The training was developed to enable staff to be able to navigate and manage a work-list utilizing the new functionalities in the Work List Management screen. Work List Management training will continue on a regular basis to DCSE employee. Completed June 9, 2006, June 21, 2006, January 27, 2010, and March 31, 2010 and March 2011. **Update: The DCSE Training Unit during the past fiscal year (2012) conducted 3 Worklist Maintenance classes for the Operation's unit staff statewide. Worklist Maintenance training occurs as a stand alone course of study and open computer lab opportunities. There were 11 open labs scheduled in 2012. The open computer lab time offers employees one on one attention in handling worklists management issues with an experienced trainer. This will continue to be an ongoing process as the DCSE Training Unit offers an open computer lab for staff to fine tune work list management skills.** **In May 2012, members of the DCSE Training unit met individually with each of the Operation's unit Managers and Child Support Supervisors throughout the state. The goal of the meetings was to assess the needs of the child support worker regardless of unit. The assessment was completed during the first week of June. Worklist management is a continued need of based on the assessments. The**

	Training unit indicated that the Child Support Specialist in Kent and Sussex are maintaining relatively current worklists (no more than a 30-day backlog). Workers in New Castle are struggling to maintain their worklists. The Training unit will still address worklist management/case closure downstate during the unit trainings; however, I'll ask that their focus be more on gathering information about how downstate staff prioritizes their work/worklists. The Training unit can then share that information with the units in New Castle County. • New DACSES system (partially corrected) **Update: The project (begun on June 1, 2010) is now in its second year. The new system to be called DECSS (Delaware Child Support System) is on scheduled to go live in October 2013. The systems' robust automated next step case processing and comprehensive locate interfaces will greatly expedite the enforcement of support obligations** **Update 2013: The system is on schedule to go- live in Oct 2013.**
Anticipated Completion Date (if not Fully corrected).	• Training initiative. **Anticipated Completion Date: Ongoing** • Division of Child Support Enforcement/Division of Social Services interface**.** **Anticipated Completion Date: The DSS interface will be reengineered with the implementation of the new DACSES system scheduled for completion in FY 2013.** • New post-court DACSES screen- (action taken different than original corrective action plan). **Anticipated Completion Date: As previously stated, will upgrade the existing functionality when DACSES is replaced and implemented in 2013.** • New DACSES system. (partially corrected). **Scheduled Completion Date: October 2013**

Agency	**Department of Health and Social Services** **Division of State Service Centers**
Fiscal Year	**2010**
Reference Number	**10-SSC-02**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Low Income Home Energy Assistance Program (93.568)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Subrecipient Monitoring**
Criteria	U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part: In terms of subrecipient monitoring, a pass-through entity is responsible for: *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Monitoring activities normally occur throughout the year and may take various forms, such as: *Reporting* – Reviewing financial and performance reports submitted by the subrecipient. *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities.
Condition	The Division monitors the subrecipients use of Federal Awards through reporting, site visits, and regular contact. We note that while the LIHEAP Program abides by these requirements, the activities they are performing at Catholic Charities site visits are not sufficient to constitute proper monitoring since substantially all of the program is run by this subrecipient. There are no specific procedures in place to select client files for eligibility monitoring but rather a different amount of files seems to be tested for each programmatic site visit. In addition, only one fiscal monitoring visit is conducted per year and 6 invoices and the related support were reviewed. Given that the subrecipient in the past has not kept adequate support with the invoice (check copy, eligibility letter, support showing what clients were serviced, etc) or sent proper support along with the invoice for reimbursement, and that 6 invoices, representing $4,182,760, were reviewed during the site visit, we feel that the site visit is not as effective or extensive as it needs to be in order to effectively monitor the subrecipient during the year. Total costs incurred by this subrecipient for the fiscal year ended June 30, 2010 was $13,452,771.

Cause	The Division has not fully implemented policies and procedures pertaining to monitoring subrecipients especially in relation to site visits conducted at the subrecipients.
Effect	The Division did not fulfill its responsibilities related to subrecipient monitoring for their subrecipient who ran the entire program; therefore subrecipients could be administering awards in a way that does not comply with federal regulations.
Recommendation	We recommend that the Division enhance its current policies and procedures over subrecipient monitoring, specifically focusing on enhancing procedures and policies for site visits in order to ensure they are effectively monitoring the subrecipients.
Questioned Costs	Questions costs could be no more than $13,452,771 which represents the total subrecipient expenditures.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	***(302) 255-9235***
Corrective Action Plan	We disagree with the auditors' assertion that the activities performed by the Division in regard to monitoring the sub-recipient Catholic Charities are not sufficient to constitute proper monitoring. Furthermore, we disagree with the auditors' representation of the Division's fiscal monitoring procedures. The Division used an on-site monitoring tool to perform the fiscal monitoring of the sub-recipient. Using the monitoring tool the Division reviewed the sub-recipient's cash receipts, accounts receivable, payroll, eligibility, accounts payable, record retention, written procedures and single audit. The monitoring included extensive testing of all supporting documentation for six invoices totaling $4,182,760 that represented 31 per cent of the total sub-recipient expenditures amounting to $13,452,771. The fiscal monitoring included numerous site visits at two locations and four follow-up meetings with sub-recipient officials. The fiscal monitoring began May 14, 2009 and was completed in August 2009. A summary report was issued to the sub-recipient on August 28, 2009 that communicated the results of the monitoring review along with recommendations for improvement. In addition to fiscal monitoring, the Division performed program monitoring site visits. In answer to the comment that we had no specific procedure for selecting client files, this is incorrect. In the past we have defined our monitoring by the number of site visits and the length of the review. We established the number of times to do site monitoring and looked at as many files that were feasible during that visit. It is true we did not define a number of files to be reviewed, but the procedure was clear and fully executed. Independent of this audit, we employed a consultant to assist us in updating all of our policies and procedures. While we stand by past practices as being valid, per above, program monitoring policies and procedures were enhanced and have already been implemented. More detailed monitoring instruments have been developed. Further, we have established as a base the review of 1% (roughly 200) randomly selected client files per fiscal year in regard to heating. There will be a review of 5% (roughly 25 files) for the summer cooling program. Further, this random selection systematically examines all categories of beneficiaries. We now examine files based on eligibility, looking at both eligible and denied households. We also review all types of program service (i.e., heating, crisis, air conditioners, and electric

	assistance). The Recommendation from the auditor did not include a method for selecting client files for review, but we would like to note that the above outlined process will be employed. These changes will be evident in the SFY'2011 program monitoring. In addition to the review of client files, there will be an annual site visit for Catholic Charities for an Administrative Review conducted by the Program Administrator. For those years when we have a cooling program, there will be one such visit for each of the two summer cooling contractor agencies providing services to our clients.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Section 700 Program Monitoring of the Delaware Energy Assistance Program (DEAP) Manual covers monitoring procedures. The procedures include client files, eligibility determination, approvals and denials, as well as an annual Administrative Review. An annual Fiscal Monitoring was conducted during the past two years (2012 and 2013) by an Internal Auditor, hired specifically for fiscal monitoring. Reports were prepared and sent to the contractor agencies. We will contact IRM to determine if a system generated sampling plan can be developed to pull case files for review.
Anticipated Completion Date (if not Fully corrected).	Contact with IRM will occur by 7/31/13. Completion date for a sampling plan is unknown at this time.

Agency	**Department of Services for Children, Youth, and Their Families**
Fiscal Year	**2009**
Reference Number	**09-CYF-01**
Related Prior Year Findings	**04-CYF-01, 05-CYF-01, 06-CYF-01, 07-CYF-01, 08-CYF-01**
Program Name (CFDA No.)	**Foster Care – Title IV-E (93.658)**
Type of Finding	**Disclaimer of Opinion**
Compliance Requirement(s)	**All**
Criteria	Federal regulations require that "The State shall promptly amend the cost allocation plan and submit the amended plan to the Director [U.S. Department of Health and Human Services, Division of Cost Allocation] (DHHS, DCA), if any of the following events occur: • The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures. • A material defect is discovered in the cost allocation plan by the Director, DCA, or the State. • The State plan for public assistance programs is amended so as to affect the allocation of costs. • Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid." (45 CFR §95.509) The DHHS Grants Administration Manual, which outlines the protocols for submission, review, and approval of cost allocation plans developed by State agencies for public assistance programs, specifies that "Cost disallowances will be made for inappropriate claims resulting from a State's failure to comply with its approved cost allocation plan…or its failure to submit an amended plan as required." (Grants Administration Manual 6-200-50).
Condition	The DHHS Office of Inspector General issued report number A-03-03-00562 dated July 6, 2005 covering the five-year audit period October 1, 1998 to September 30, 2003 that stated, in part: "Delaware's cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting federal and State programs. DCA approved Delaware's cost allocation plan 95-1 in March 1999. The plan was effective from October 1998 through September 1999. In December 1999, DCA approved cost allocation plan 95-2, effective October 1999. After approval of plan 95-2, ACF [DHHS, Administration for Children and Families regional officials noted unanticipated increases in Title IV-E administrative costs. ACF initiated deferral of certain costs claimed for Title IV-E candidates and requested that the Office of Inspector General audit Delaware's claims for Title IV-E administrative and training costs developed under plan 95-2."

	The report further states that: "The [State Department of Services for Children, Youth and Their Families (DSCYF)] Department of Services used the revised 95-2 methodology to allocate candidates' case management costs…during the quarters ended December 1999 through June 2003." And that: "Beginning with the quarter ended September 2003, the Department of Services returned to the earlier method that properly allocated candidate costs to benefiting programs. However, the Department of Services did not amend its cost allocation plan." The report identifies costs of $5,859,542 (federal share) over the five-year period under audit related to the use of the 95-2 methodology, and recommends, in part, that the State "…amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates." DSCYF stated its concurrence with this recommendation in its official response to the audit report, and stated its intention to amend its cost allocation plan in the December 2005-January 2006 time frame, anticipating approval from the Regional Office of the Administration for Children and Families (RO) to pilot a proposed DSCYF foster care candidacy documentation system. DSCYF, in the interim, reverted to the previously approved 95-1 methodology after discussion with DHHS. For the period under audit for purposes of the Single Audit (July 1, 2008 through June 30, 2009), the Foster Care program was not operating under a cost allocation plan submitted in accordance with 45 CFR §95.509 and DHHS Grants Administration Manual Chapter 6-200-50. Costs allocated using the original methodology approved in the 95-1 cost allocation plan for the Foster Care program for the year ended June 30, 2009 were $1,135,673, representing 30% of the total program costs of $3,777,636. In Fiscal Year 2006, the Federal Health and Human Services Inspector General's office audited the Department's allocation of administrative and training costs to the Title IV-E program for which a final report has been issued. As a result of the uncertainty surrounding implementation of a new cost allocation plan related to Foster Care, we will not opine on compliance for this program.
Cause	Differing interpretations of federal regulations concerning allocable costs.
Effect	Failure to obtain timely approval of the cost allocation plan could result in questioned costs.
Recommendation	We recommend that DSCYF continue to work with the DHHS Regional Office in implementing the recommendations included in report A-03-03-00562 which it concurred within a letter dated May 25, 2005 included as an appendix to that report.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Christine L. Kraft, DSCYF Controller***

Agency Contact Phone Number	***(302) 892-4548***
Corrective Action Plan	DSCYF submitted a new Title IV-E Foster Care and Adoption Assistance Cost Allocation Plan (CAP) to the US DHHS Division of Cost Allocation New York, NY, and to the Administration for Children and Families Region III Office, Philadelphia PA on August 29, 2011. Both offices have acknowledged receipt of the CAP which contains a new Random Moment Time Sample survey, a proposed methodology for reinstating Foster Care Candidacy (Pre-Placement) claims, and updated allocation schedules that reflect the reorganization of the department as of July 1, 2011. As of June 30, 2012, DSCYF has received initial commentary and questions concerning the contents of the proposed CAP from the US DHHS Division of Cost Allocation New York, NY, the ACF Region III Office, Philadelphia PA, and the Centers for Medicare and Medicaid Services Region III Office, Philadelphia PA. DSCYF is currently reviewing the commentary and questions, and plans to resubmit the CAP prior to the end of August 2012. **As of June 2013**, negotiations with the US DHHS Division of Cost Allocation New York, NY, as well as the Centers for Medicare and Medicaid Services (CMS) and the Administration for Children and Families (ACF), Region III Offices, Philadelphia, PA, remain ongoing with the most recent version of the CAP having been submitted on June 12, 2013. It should be noted that with this version DSCYF has decided not to continue to pursue claiming for Division of Family Services Pre-placement Foster Care Candidates and has also decided not to pursue Medicaid administrative cost claiming for our Division of Youth Rehabilitative Services (DYRS) and these two items have been removed from the proposed CAP. DSCYF has received a set of updated questions from CMS, and we are awaiting additional commentary and questions from ACF.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Negotiations with US DHHS Division of Cost Allocation New York, NY, as well as the Centers for Medicare and Medicaid Services (CMS) and the Administration for Children and Families (ACF), Region III Offices, Philadelphia, PA, remain ongoing.
Anticipated Completion Date (if not Fully corrected).	December 2013.

Agency	**Department of Services for Children, Youth, and Their Families**
Fiscal Year	**2009**
Reference Number	**09-CYF-03**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Adoption Assistance (93.659)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Allowable Costs**
Criteria	Federal regulations require that "The State shall promptly amend the cost allocation plan and submit the amended plan to the Director [U.S. Department of Health and Human Services, Division of Cost Allocation] (DHHS, DCA), if any of the following events occur: • The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures. • A material defect is discovered in the cost allocation plan by the Director, DCA, or the State. • The State plan for public assistance programs is amended so as to affect the allocation of costs. • Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid.‖ (45 CFR §95.509) The DHHS Grants Administration Manual, which outlines the protocols for submission, review, and approval of cost allocation plans developed by State agencies for public assistance programs, specifies that "Cost disallowances will be made for inappropriate claims resulting from a State's failure to comply with its approved cost allocation plan…or its failure to submit an amended plan as required." (Grants Administration Manual 6-200-50).
Condition	The U.S. Department of Health and Human Services (DHHS) Office of Inspector General issued report number A-03-03-00562 dated July 6, 2005 covering the five-year audit period October 1, 1998 to September 30, 2003 that stated, in part: "Delaware's cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting federal and State programs. DCA approved Delaware's cost allocation plan 95-1 in March 1999. The plan was effective from October 1998 through September 1999. In December 1999, DCA approved cost allocation plan 95-2, effective October 1999. After approval of plan 95-2, ACF [DHHS, Administration for Children and Families] regional officials noted unanticipated increases in Title IV-E administrative costs. ACF initiated deferral of certain costs claimed for Title IV-E candidates and requested that the

	Office of Inspector General audit Delaware's claims for Title IV-E administrative and training costs developed under plan 95-2." The report further states that: "The [State Department of Services for Children, Youth and Their Families (DSCYF)] Department of Services used the revised 95-2 methodology to allocate candidates' case management costs…during the quarters ended December 1999 through June 2003." And that: "Beginning with the quarter ended September 2003, the Department of Services returned to the earlier method that properly allocated candidate costs to benefiting programs. However, the Department of Services did not amend its cost allocation plan." The report identifies costs of $5,859,542 (federal share) over the five-year period under audit related to the use of the 95-2 methodology, and recommends, in part, that the State "…amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates." DSCYF stated its concurrence with this recommendation in its official response to the audit report, and stated its intention to amend its cost allocation plan in the December 2005-January 2006 time frame, anticipating approval from the Regional Office of the Administration for Children and Families (RO) to pilot a proposed DSCYF foster care candidacy documentation system. DSCYF, in the interim, reverted to the previously approved 95-1 methodology after discussion with DHHS. For the period under audit for purposes of the Single Audit (July 1, 2008 through June 30, 2009), the Adoption Assistance program was not operating under a cost allocation plan submitted in accordance with 45 CFR §95.509 and DHHS Grants Administration Manual Chapter 6-200-50. Costs allocated using the original methodology approved in the 95-1 cost allocation plan for the Adoption Assistance program for the year ended June 30, 2009 were $235,365, representing 12% of the total program costs of $1,914,290. In Fiscal Year 2006, the Federal Health and Human Services Inspector General's office audited the Department's allocation of administrative and training costs to the Title IV-E program for which a final report has been issued.
Cause	Differing interpretations of federal regulations concerning allocable costs.
Effect	Failure to obtain timely approval of the cost allocation plan could result in questioned costs.
Recommendation	We recommend that DSCYF continue to work with the DHHS Regional Office in implementing the recommendations included in report A-03-03-00562 which it concurred within a letter dated May 25, 2005 included as an appendix to that report.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Christine L. Kraft, DSCYF Controller***
Agency Contact Phone Number	***(302) 892-4548***

Corrective Action Plan	DSCYF submitted a new Title IV-E Foster Care and Adoption Assistance Cost Allocation Plan (CAP) to the US DHHS Division of Cost Allocation New York, NY, and to the Administration for Children and Families Region III Office, Philadelphia PA on August 29, 2011. Both offices have acknowledged receipt of the CAP which contains a new Random Moment Time Sample survey, a proposed methodology for reinstating Foster Care Candidacy (Pre-Placement) claims, and updated allocation schedules that reflect the reorganization of the department as of July 1, 2011. DSCYF has requested that the CAP become effective as of October 1, 2011. As of June 30, 2012, DSCYF has received initial commentary and questions concerning the contents of the proposed CAP from the US DHHS Division of Cost Allocation New York, NY, the ACF Region III Office, Philadelphia PA, and the Centers for Medicare and Medicaid Services Region III Office, Philadelphia PA. DSCYF is currently reviewing the commentary and questions, and plans to resubmit the CAP prior to the end of August 2012. **As of June 2013**, negotiations with the US DHHS Division of Cost Allocation New York, NY, as well as the Centers for Medicare and Medicaid Services (CMS) and the Administration for Children and Families (ACF), Region III Offices, Philadelphia, PA, remain ongoing with the most recent version of the CAP having been submitted on June 12, 2013. It should be noted that with this version DSCYF has decided not to continue to pursue claiming for Division of Family Services Pre-placement Foster Care Candidates and has also decided not to pursue Medicaid administrative cost claiming for our Division of Youth Rehabilitative Services (DYRS) and these two items have been removed from the proposed CAP. DSCYF has received a set of updated questions from CMS, and we are awaiting additional commentary and questions from ACF.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Negotiations with US DHHS Division of Cost Allocation New York, NY, as well as the Centers for Medicare and Medicaid Services (CMS) and the Administration for Children and Families (ACF), Region III Offices, Philadelphia, PA, remain ongoing.
Anticipated Completion Date (if not Fully corrected).	December 2013.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2013

The following findings from years prior to FY12 have been fully corrected or no longer warrant further action:

Finding Number	Program Name	Program CFDA #	Compliance Requirement	Status
11-DHSS-04	State Children's Health Insurance Program; Medicaid Cluster	93.767; 93.775, 93.777, S-93.777, 93.778, S-93.778	Suspension and Debarment	Fully Corrected
11-SSC-01	Low-Income Home Energy Assistance Program	93.568	Allowable Costs, Subrecipient Monitoring	Fully Corrected
11-DSS-01	Child Care Cluster	93.575, 93.596, S-93.713	Special Tests and Provisions (Fraud Detection and Repayment)	No Longer Warranting Further Action
11-DSS-02	Child Care Cluster	93.596, 93.575, S-93.713	Earmarking	Fully Corrected
11-DSS-05	Supplemental Nutritional Assistance Program Cluster	10.551, 10.561, S-10.561	Reporting	Fully Corrected
11-DSS-07	Child Care Cluster	93.596, 93.575, S-93.713	Special Tests and Provisions (Health and Safety Requirements)	Fully Corrected
11-DOL-01	Vocational Rehabilitation Cluster	84.126, 84.390	Eligibility	Fully Corrected
11-DOL-06	Workforce Improvement Act Cluster	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Reporting (Section 1512)	Fully Corrected
08-DPH-02	Centers for Disease Control and Prevention, Investigations, and Technical Assistance	93.283	Equipment and Real Property Management	Fully Corrected