

State of Delaware



**ACFR**  
**Financial**  
**Statement**

Internal Controls Report



**Kathleen K. McGuinness, RPh, CFE**  
**Delaware State Auditor**



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**What Was Performed?** A report on internal controls over financial reporting and on compliance and other matters based on an audit of financial statements for fiscal year ending June 30, 2021.

**Why This Engagement?** Government auditing standards require the State to issue a report on the controls relied on in the financial statement audit of the State's Annual Comprehensive Financial Report (ACFR). Although the purposes of the ACFR is to provide financial transparency and accountability of the management of the state funds, this report is to provide information on any instances of improper controls and non-compliance that were considered to be reportable to the State. The internal control report and findings of the ACFR, were conducted according to generally accepted government auditing standards (GAGAS) but do not express an opinion on the effectiveness of the State's internal controls.

**What Was Found?** There were two findings in this report:

- There was a *material weakness*<sup>1</sup> found with the Department of Labor unemployment fund controls not being properly implemented to ensure that cash, taxes receivable, accounts receivable, intergovernmental receivables, claims payable, unemployment tax revenue, unemployment benefit expenses, and federal grants revenue were recorded accurately. As a result, the Department of Labor posted audit adjustments because of these misstatements.
- There was a *significant deficiency*<sup>2</sup> found with the Department of Labor unemployment insurance cash and cash equivalents. The reconciled book balance on the bank statement did not agree to the balance recorded in the general ledger. The Department of Labor posted an adjusting accounting entry of \$2,910, 437 with an unresolved variance of \$82,382 because of the reconciliation process variance found.

The State of Delaware's 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 for the Fiscal Year 2021 can be found on our website [here](#).

For any questions regarding the attached report, please contact State Auditor Kathleen McGuinness at 302-739-5055 or [Kathleen.McGuinness@delaware.gov](mailto:Kathleen.McGuinness@delaware.gov).

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<sup>1</sup> **Material Weakness** is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility of material misstatement.

<sup>2</sup> **Significant Deficiency** is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness but important enough to merit attention.



STATE OF DELAWARE  
OFFICE OF AUDITOR OF ACCOUNTS

KATHLEEN K. MCGUINNESS, RPh, CFE  
STATE AUDITOR

To the Citizens, Governor, and  
Members of the State Legislature of the  
State of Delaware:

Ladies and Gentlemen,

As contracted with CliftonLarsonAllen, the Office of Auditor of Accounts has recently completed the *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* for the year ended June 30, 2021.

The report provides information on controls and compliance by the State agencies as reported in the State of Delaware's *Annual Comprehensive Financial Report*, it contains information on material weaknesses, and significant deficiencies which were considered to be reportable to the State.

Also included in this report are recommendations to correct the conditions of these findings as well as the State agency's responses to the findings.

This report is available through the Office of Auditor of Accounts web site located at [auditor.delaware.gov](http://auditor.delaware.gov).

Should you have any questions, please feel free to contact me at (302) 739-5055 or [Kathleen.Mcguinness@delaware.gov](mailto:Kathleen.Mcguinness@delaware.gov).

Sincerely,

A handwritten signature in blue ink, appearing to read "K. McGuinness".

Kathleen McGuinness, RPh, CFE  
Delaware State Auditor



**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, 2021, and the related notes to the financial statements, which collectively comprise the State’s basic financial statements and have issued our report thereon dated January 27, 2022. Our report includes a reference to other auditors who audited the financial statements of certain agencies and component units of the State of Delaware, which represent the indicated percent of total assets and deferred outflows of resources and total revenues as described in our report on the State’s financial statements and as presented in the following table. 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 other auditors. This report does not include the results of our testing of internal control over financial reporting or compliance and other matters for the Delaware Department of Transportation, Delaware State Lottery and Delaware State University as we have issued separate reports for the Delaware Department of Transportation, Delaware State Lottery and Delaware State University. The financial statements of the Delaware Sustainable Energy Utility and the Riverfront Development Corporation of Delaware were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Delaware Sustainable Energy Utility and the Riverfront Development Corporation of Delaware.

Opinion Unit	Entity	Percentage Audited by Other Auditors	
		Assets and Deferred Outflows of Resources	Revenues
Governmental Activities	Sustainable Energy Utility, Inc.	1.1%	0.2%
Discretely Presented Component Units	Delaware State Housing Authority, Diamond State Port Corporation, Riverfront Development Corporation, Delaware State Foundation, Delaware Charter Schools, and Delaware Agricultural Lands Preservation Foundation	83.0%	70.9%
General Fund	Sustainable Energy Utility, Inc.	3.6%	0.4%
Aggregate Remaining Fund Information	Delaware Public Employees’ Retirement System and Delaware Other Postemployment Benefits Fund Trust	99.0%	92.7%

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

### **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) as a basis for designing 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 of this section 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2021-001 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and responses as item 2021-002 to be a significant deficiency.

### **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 financial statements. 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 of Delaware's Response to Findings**

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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 them.

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

**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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Baltimore, Maryland  
January 27, 2022

**State of Delaware**  
**Schedule of Findings and Management Response**  
**June 30, 2021**

**Material Weakness**

**Finding 2021-001 – Unemployment Fund – Audit Adjustments**

***Condition***

The Department of Labor did not have controls properly implemented to ensure that cash, taxes receivable, accounts receivable, intergovernmental receivables, claims payable, unemployment tax revenue, unemployment benefits expense, and federal grants revenue were recorded accurately.

***Criteria***

COSO/Internal Control Framework defines control activities as “policies and procedures that help ensure management’s directives are carried out.” Management review controls are defined as, “the activities of a person, different than the preparer, through analyzing and performing oversight of activities performed, and is an integral part of any internal control structure.”

***Context***

Our audit procedures detected material and immaterial misstatements to cash, taxes receivable, accounts receivable, intergovernmental receivables, claims payable, unemployment tax revenue, unemployment benefits expense, and federal grants revenue.

***Effect***

Certain adjustments were required to be made to the accounting records subsequent to the start of the audit process.

***Cause***

The Department of Labor’s internal controls over financial reporting did not ensure proper reconciliation and review of account balances at year end.

***Recommendation***

We recommend that the Department of Labor establish policies and procedures for their year end close and the account reconciliation process to ensure accounts are properly stated. The policies and procedures established should also ensure account reconciliations are reviewed timely and by the appropriate personnel.

***Management Response***

Management concurs with the finding. Accounts required adjustments due to an error in the unemployment tax and misapplication of funds received from federal funding under the CARES Act. Numerous employers’ unemployment tax rate was inappropriately increased during fiscal year 2021. Corrections to the rate were implemented after June 30, 2021, but due to the use of an older mainframe system, these corrections restated the balances of taxes receivable and unemployment tax revenue as of June 30, 2021. The federal funding received for taxes due from not-for-profit employers was recorded directly to revenue instead of applying to the receivables balances for these employers. Employee turnover and the increased workload due to the COVID-19 pandemic limited the detail review of the accounts impacted. DOL is training new employees and working with consultants, as needed, to ensure proper reconciliation and review of accounts occurs at least quarterly. DOL is working with the consultants and the Division of Accounting internal control team to update internal control policies and procedures for account reconciliation.

## **Significant Deficiency**

### **Finding 2021-002 – Unemployment Insurance Cash**

#### ***Condition***

In the reporting of cash and cash equivalents, the Department of Labor's reconciled book balance on the bank reconciliation did not agree to the balance recorded in the general ledger.

#### ***Criteria***

COSO/Internal Control Framework defines control activities as "policies and procedures that help ensure management's directives are carried out." Management review controls are defined as, "the activities of a person, different than the preparer, through analyzing and performing oversight of activities performed, and is an integral part of any internal control structure."

#### ***Context***

The variance in the amount of \$2,992,819 was not noted during the Department of Labor's reconciliation process. As a result of our audit inquiries an adjusting entry was made by the Department of Labor to correct \$2,910,437 of the variance, leaving a remaining unresolved variance of \$82,382.

#### ***Effect***

The financial statements contain an immaterial overstatement of cash and cash equivalents and the State passed on making the proposed audit adjustment.

#### ***Cause***

The Department of Labor was informed of a similar variance during the 2020 audit. The Department of Labor's internal controls over the bank reconciliation and financial reporting processes failed to remedy the deficiency communicated to them in the prior year. Additionally, the Department of Labor failed to identify that the variance between the reconciled book balance and general ledger was an error requiring correction during their reviews of bank reconciliations during 2021.

#### ***Recommendation***

We recommend that policies and procedures be improved to ensure that internal controls over the bank reconciliation and financial reporting processes are thorough and performed by personnel with proper experience in order to identify and correct errors and misstatements.

#### ***Management Response***

Management concurs with the finding. Employee turnover and the increased workload caused by the COVID-19 pandemic limited the time spent investigating the unreconciled differences. Late in the fiscal year, DOL requested assistance with reconciling the cash accounts and ultimately hired an outside accounting firm. Cash account detail is maintained in spreadsheets and paper statements, which slowed the reconciliation process resulting in the adjustment for financial statement purposes. DOL continues work with the outside accountant, completing cash proofs for each month in an effort to resolve all unreconciled differences each month. DOL in consultation with the outside accountant is updating the internal control policies and procedures to ensure appropriate personnel perform and review all account reconciliations.