State of Delaware

Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

Jack A. Markell
Governor

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State of Delaware
Basic Financial Statements
For the Fiscal Year Ended June 30, 2012
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KPMG LLP
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Independent Auditor's Report

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

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, 2012, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the entities within the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously 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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2013 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* and should be considered in assessing the results of our audit.

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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 required supplementary information 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.

KPMG LLP

January 18, 2013

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, 2012. 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 $5,022.1 million (net assets). Component units reported net assets of $828.8 million, an increase of $40.1 million from the previous year.

- As a result of its operations, the primary government's total net assets decreased by $356.6 million (6.6%) in fiscal year 2012 when compared to the previous year's ending net assets. Net assets of governmental activities decreased by $391.1 million (16.5%) from the previous year, while net assets of the business-type activities increased $34.6 million (1.2%) from the previous year.

- The State's governmental funds reported combined ending fund balances of $1,829.3 million, an increase of $37.0 million (2.1%) in comparison with the prior year.

- The general fund reported unassigned fund balance of $964.0 million which was 22.6% of total general fund expenditures.

- The State's total general obligation debt increased $83.9 million (5.2%) during fiscal year 2012 to $1,696.5 million. Of the State's outstanding debt, $545.0 million (32.1%) has been issued on behalf of local school districts, which is supported by the property tax revenues of those districts.

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 assets presents information on all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets 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 assets changed during the most recent fiscal year. All changes in net assets 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 Technical and Community College Educational 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 statement has been provided for the budgetary general fund to demonstrate compliance with the budget. The schedule can be found on page 116 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 126 - 134.

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 - 112 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 trusts. The RSI can be found on pages 114 - 123 of this report.

Statewide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's assets exceeded its liabilities by $5,022.1 million at the close of the most recent fiscal year.

The largest portion of the State's net assets (95.7%) 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 assets, comprising 14.2% of total net assets, 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 assets represents the unrestricted net assets (9.9%).

Condensed Financial Information - Primary Government
As of June 30, 2012
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Non-Current Assets	$ 2,930,951	$ 2,964,936	$ 542,418	$ 644,226	$ 3,473,369	$ 3,609,162
Capital Assets	3,630,903	3,528,015	4,034,852	3,943,634	7,665,755	7,471,649
Total Assets	6,561,854	6,492,951	4,577,270	4,587,860	11,139,124	11,080,811
Long-Term Liabilities Outstanding	3,734,563	3,274,314	1,232,755	1,296,406	4,967,318	4,570,720
Other Liabilities	845,643	845,853	304,045	285,553	1,149,688	1,131,406
Total Liabilities	4,580,206	4,120,167	1,536,800	1,581,959	6,117,006	5,702,126
Net Assets:						
Invested in Capital Assets, Net of Related Debt	1,851,218	1,831,490	2,956,316	2,840,595	4,807,534	4,672,085
Restricted	519,836	186,430	169,954	173,445	689,790	359,875
Unrestricted	(389,406)	354,864	(85,800)	(8,139)	(475,206)	346,725
Total Net Assets	$ 1,981,648	$ 2,372,784	$ 3,040,470	$ 3,005,901	$ 5,022,118	$ 5,378,685

The capital assets of the governmental activities increased by $102.9 million (2.9%), since June 30, 2011. Increases are a result of significant renovations to, and expansions of, existing school buildings across all counties to accommodate the rise in student population.

The decrease in current assets is due to a decrease in grant receivables from the federal government.

The increase in governmental activities long-term liabilities outstanding of $460.2 million (14.1%) is primarily due to an increase in the other post employment benefits liability. At June 30, 2012, the long-term obligation for OPEB was $1,496.5 million, an increase of $292.4 million (24.3%) from fiscal year 2011. 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 $83.9 million (5.2%) from fiscal year 2011. The State's debt as a percentage of the State's personal income was 8.0% in fiscal year 2011 and 4.8% in fiscal year 2012. The State's debt burden reflects its centralized role in financing facilities, such as schools and prisons.

Additionally, the accounts payable of various organizations reflected an increased by $38.6 million. This is due to the rising costs and timing of payments to vendors.

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

Changes in Net Assets - Primary Government
For Year End June 30, 2012
(Expressed in Thousands)

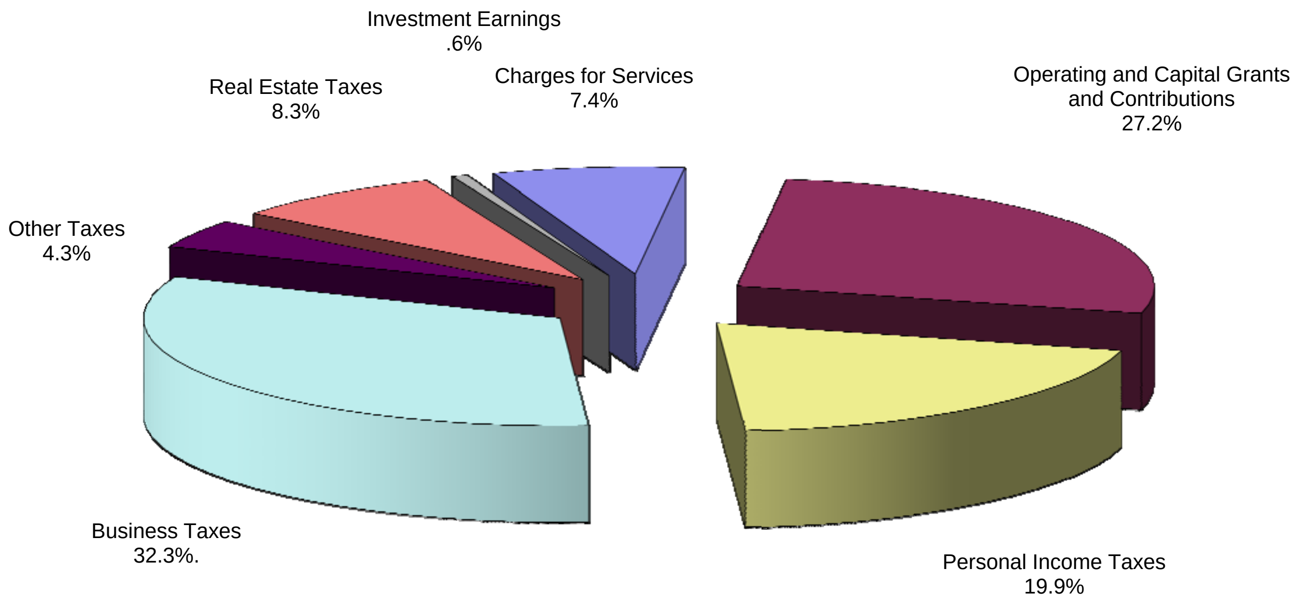
	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	$ 421,594	$ 475,026	$ 1,285,907	$ 1,290,650	$ 1,707,501	$ 1,765,676
Operating Grants and Contributions	1,541,931	1,735,026	109,037	170,681	1,650,968	1,905,707
Capital Grants and Contributions	-	-	199,214	195,030	199,214	195,030
General Revenues:						
Taxes:						
Personal Income Taxes	1,126,014	986,002	-	-	1,126,014	986,002
Business Taxes	1,834,684	1,926,473	-	-	1,834,684	1,926,473
Real Estate Taxes	473,351	456,772	-	-	473,351	456,772
Other Taxes	241,525	246,268	-	-	241,525	246,268
Investment Income (Loss)	32,849	28,356	4,029	2,815	36,878	31,171
Gain (Loss) on Sale of Assets	-	-	308	587	308	587
Miscellaneous	24,103	29,201	-	-	24,103	29,201
Total Revenues	5,696,051	5,883,124	1,598,495	1,659,763	7,294,546	7,542,887
Expenses:						
General Government	654,311	660,931	-	-	654,311	660,931
Health and Children's Services	2,386,475	2,186,189	-	-	2,386,475	2,186,189
Judicial and Public Safety	660,053	596,764	-	-	660,053	596,764
Natural Resources and Environmental Control	161,354	189,301	-	-	161,354	189,301
Labor	79,706	74,063	-	-	79,706	74,063
Education	2,372,080	2,304,468	-	-	2,372,080	2,304,468
Interest Expense	61,111	75,522	-	-	61,111	75,522
Lottery	-	-	386,241	385,611	386,241	385,611
Transportation	-	-	641,850	593,632	641,850	593,632
Unemployment	-	-	247,932	300,262	247,932	300,262
Total Expenses	6,375,090	6,087,238	1,276,023	1,279,505	7,651,113	7,366,743
Increase (Decrease) in Net Assets Before Transfers	(679,039)	(204,114)	322,472	380,258	(356,567)	176,144
Transfers	287,903	320,891	(287,903)	(320,891)	-	-
Increase (Decrease) in Net Assets	(391,136)	116,777	34,569	59,367	(356,567)	176,144
Net Assets - Beginning of Year	2,372,784	2,256,007	3,005,901	2,946,534	5,378,685	5,202,541
Net Assets - End of Year	$ 1,981,648	$ 2,372,784	$ 3,040,470	$ 3,005,901	$ 5,022,118	$ 5,378,685

Governmental Activities Since fiscal year 2011, the net assets for primary government has decreased by $356.6 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 assets from governmental activities are as follows:

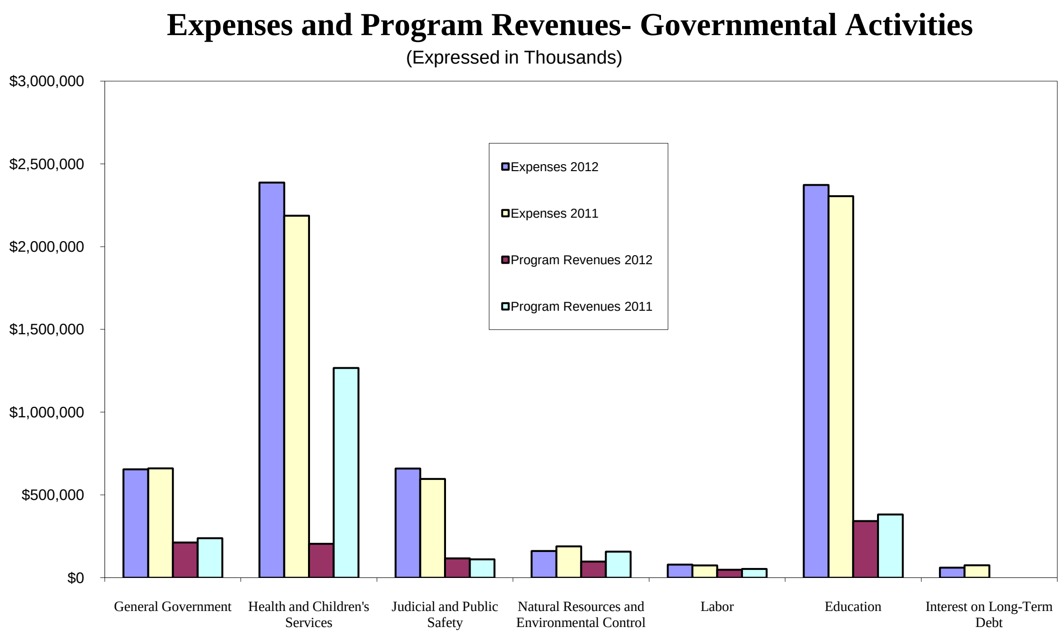
Total general revenues of governmental activities increased overall by $59.5 million (1.6%) relating to increases in net personal income taxes of $140.0 million, real estate taxes of $16.6 million and investment earnings of $4.5 million. There was a decrease in business tax of $91.8 million. The increases in the tax revenues were primarily attributable to the increased efforts in collections of taxes and a the decrease in tax refunds paid during the year.

Program revenues decreased by $246.5 million (11.2%) from the prior year primarily due to an decrease in operating grants of $193.1 million. Health and Social Services received $153.0 and Education received $26.6 million less in operating grants due to decease in federal programs, such as, ARRA. Also, charges for services decreased by $53.4 million compared to the prior fiscal year, there was a decrease in charges relating to licenses, fines, fees and permits with the Department of Natural resources and Control and the Department of Agriculture.

Revenues by Source – Governmental Activities



Expenses for governmental activities increased during fiscal year 2012 by $287.9 million (4.7%). The increase in governmental activities is also due to the increased spending of $200.3 million at Health and Children's Services as a result of a general increase in the population served and rising health care costs. Educational expenses also increased by $67.6 million due to the continued increase in student population resulting in additional personnel and other operating costs.



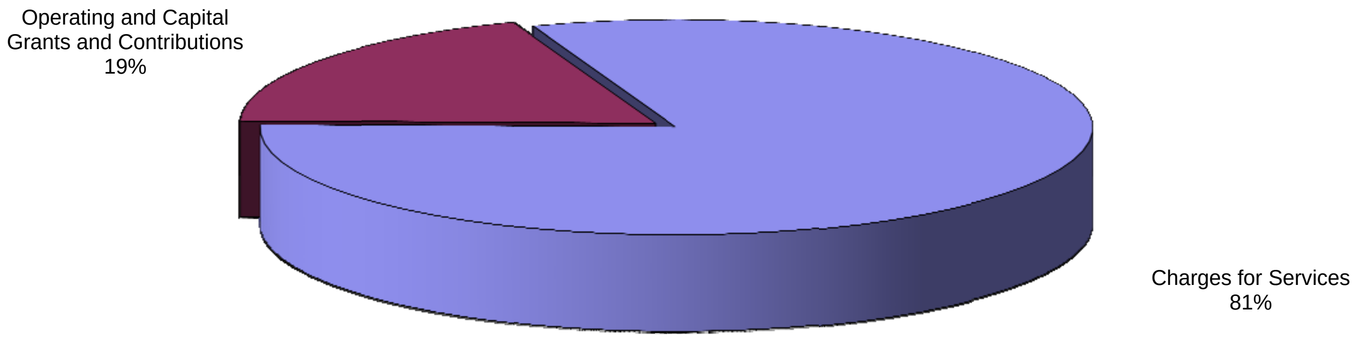
Business-type Activities The net assets for business-type activities increased by $34.6 million in fiscal year 2012. This increase is comprised of a $47.7 million increase in net assets for DelDOT and offset by $13.1 million decrease in the Unemployment Insurance Trust Fund.

The decrease of $13.1 million in Delaware Unemployment Insurance Trust Fund net assets is due to the continued demand in benefits paid by the Trust Fund. The operating revenues and operating expenses decrease by $56.4 million and $53.2 million, respectively.

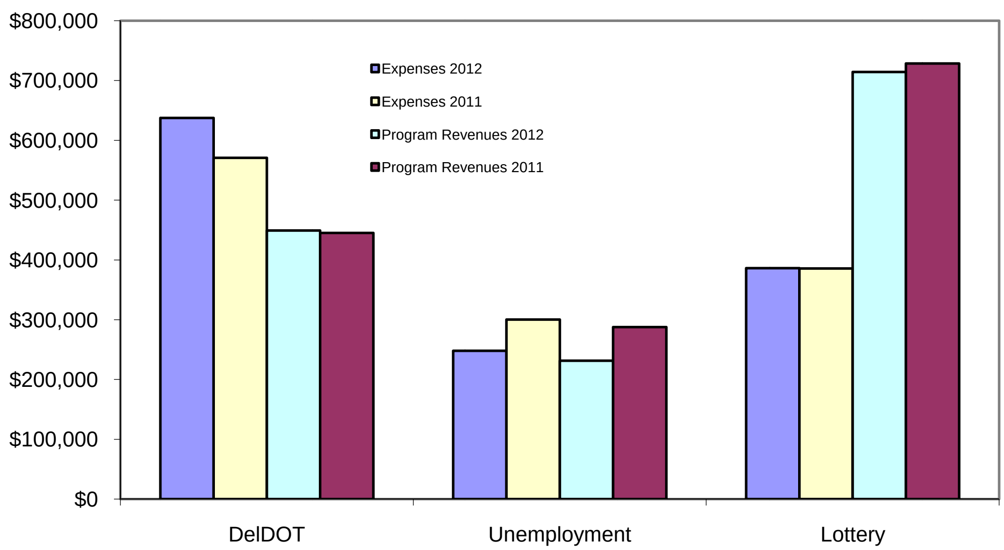
DelDOT's net assets at June 30, 2012 were $47.7 million higher than at June 30, 2011. DelDOT's total operating revenues increased by $4.2 million (1.0%) while operating expenses increased by $52.6 million (9.6%). The change is primarily attributable to an increase in motor vehicle and related revenues as a result of increased auto sales. The increase in operating expenditures is due to increased capital preservation.

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 $14.2 million (4.8%) over last year mainly due to a increased competition from casinos operating in Maryland and Pennsylvania. The Lottery transferred $328.0 million in gaming revenues to the State, a decrease from fiscal year 2011 of $14.8 million. The total costs of games and prizes increased by $.3 million (0.1%) over the previous year due to the increase in table game 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.

During the prior fiscal year, the State adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constrains imposed upon the use of the resources reporting in the governmental funds. This is further described in note 1 and note 16 of the financial statements.

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $1,829.3 million, an increase of $37.0 million over the prior year.

Of this amount, $8.1 million is nonspendable (less than .5%), either due to its form or legal constraints, $519.8 million or 28.4% is restricted for specific programs by external constraints and $236.9 million or 13.0% is committed for specific purposes pursuant to constraints imposed by a formal action of the Delaware Legislature. An additional $100.5 million or 5.4% has been assigned to specific purposes by management. The remaining $964.0 million or 52.7% of fund balance is unassigned.

General Fund The General Fund accounts for the operation and administration of the State. Total general fund balance decreased by less than million for the fiscal year.

Total General Fund revenues increased by $99.4 million (2.7%) due to several factors. The main increases were in personal taxes which increased by $109.5 million and business taxes which decreased by $115.0 million. This was partially due to increased effort with enforcement efforts and a decrease in business profits. Also, there was an $108.8 million increase in other income. This was due to repayment of loans for the state revolving fund at Department of Natural Resources and Environmental Control, Department of Health and Social Services and Delaware Economic Development Office.

Total General Fund expenditures increased by $294.6 million (7.4%). This was primarily due to increases in Health and Children's Services of $229.4 million, General Government of $65.2 million, Public Safety of $11.6 million, Education of $48.8 million offset by a decrease of expenditures in the Department of Natural Resources and Environmental Control of $21.1 million. The increase in expenditures for Health and Children's Services, General Government, Public Safety, Education, and Natural Resources and Environmental Control, were attributable to the decrease in the federal funding received from the stimulus package from the prior year.

At the end of the current fiscal year, unassigned fund balance of the general fund was $964.0 million, while total fund balance reached $1,397.0 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 revenues and expenditures decreased by $123.1 million and $66.4 million, respectively. The primary decrease in federal revenues was due to expiration of the ARRA funding received by the Department of Education and funding for the Medicaid and supplemental program administered by Health and Children's Services.

Local School 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 $31.9 million to $306.4 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 $187.7 million in fiscal year 2012, a decrease of $7.7 million. State legislation authorizes certain capital project expenditures prior to the issuance of bonds in an aggregate amount not to exceed 3% of general fund revenue.

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 assets increased in fiscal year 2012 by $34.6 million as a result of operations. Page 11 discusses the changes in net assets 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 decreased by $233.0 million.

Revenues were $172.1 million (4.9%) less than the previous fiscal year. This was primarily due to decreases in the corporate income tax of $49.1 million (29.2%), abandoned property of $109.8 million (26.8%), and hospital board and treatment of $5.3 million (7.6%). Offsetting these revenue decreases were increases in personal income tax collections of $44.7 million (4.5%), gross receipts tax of $45.0 million (24.2%) bank franchise tax of $9.1 million (7.7%), and insurance tax of $4.2 million (8.0%).

Expenditures were $321.7 million (9.8%) more than the previous fiscal year. Salaries and wages increased by $77.4 million (6.4%). Grants-in-Aid increased by $36.9 million (11.3%) while Medicaid increased by $171.1 million (36.7%). In addition, contractual services increased by $20.6 million (4.7%) and capital outlays decreased by $10.1 million (38.3%). Debt service payments decreased by $25.2 million (14.9%).

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. This was the case for the Medicaid program at Department of Health and Social Services and the Education services for Department of Education.

Where actual expenditures were within the final budget in departments the significant budget variances were as follows:

- $139.3 million in the Executive Department for funds budgeted, but not spent on ongoing capital improvement projects, technology projects, and contingency items,
- $14.0 million in Department of Finance for expenditures anticipated for upgrade of computer system but not yet expended.

Funded projects, which are not completed by year-end, may carry over unspent funds into fiscal year 2012. 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, 2012, amounted to $7,665.8 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 increase in capital assets for governmental activities was $102.9 million (2.9%) and the increase for business-type activities was $91.2 million (2.3%).

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

- The increase in governmental activities is due to continued completion of school renovations,
- The increase in business-type activities is due to increased spending at DelDOT for the US 301 toll road project.

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 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 1,591 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, 2012 is not available for all assessments.

Of the State's 1,591 bridges that were rated in fiscal year 2012, 72.2% received a good or better Bridge Condition Rating (BCR) rating, 20.2% were rated fair, and 7.6% received a substandard rating. Of the 7,174,339 square feet of bridge deck that was rated, 90.3% or 6,476,158 square feet received an Overall Pavement Condition (OPC) condition rating of good or better, 9.6% received a fair rating, and 0.1% received a substandard deck rating. In 2012, 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 2012 estimate to maintain and preserve DelDOT's infrastructure was $341.0 million, but the actual expenditures were $294.5 million, which is $46.5 million under the estimate. The estimated expenditures represent annual 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 35 - 44, Note 12 on pages 84 - 86 and on pages 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, 2012
Net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 447,812	$ 440,129	$ 276,761	$ 276,761	$ 724,573	$ 716,890
Land Improvements	155,604	147,656	-	-	155,604	147,656
Buildings	2,416,856	2,383,096	73,724	70,029	2,490,580	2,453,125
Easements	291,105	274,871	-	-	291,105	274,871
Equipment, Vehicles and Computer Software	74,743	81,243	117,533	115,768	192,276	197,011
Infrastructure	-	-	3,564,347	3,481,075	3,564,347	3,481,075
Construction-In-Progress	244,783	201,020	2,487	-	247,270	201,020
Total	$ 3,630,903	$ 3,528,015	$ 4,034,852	$ 3,943,633	$ 7,665,755	$ 7,471,648

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 $1,696.5 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, 2012, $545.3 million, or 32.1%, of the State's outstanding debt was issued on behalf of local school districts. Local school districts transferred $62.3 million of property tax revenue to the State to cover related debt service during fiscal year 2012.

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 2012, debt issuance was limited to $171.1 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 2012, 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 2012. On November 15, 2011, the State issued $275.4 million of its general obligation bonds maturing between July 1, 2012 and July 1, 2031. Of the $275.4 million issued as Series 2011, $50.4 million was issued to refund higher priced bonds resulting in a net present value savings of $2.8 million, or 5.2% of the principal refunded.

The Sustainable Energy Utility does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. The bonds are secured by appropriations of the state agencies that are participating in the SEU program. The Sustainable Energy Utility, Inc. had $56.2 million of Revenue Bonds, Series 2011 outstanding as of June 30, 2012. These bonds are currently used to finance construction on energy efficient upgrades to facilities in the State.

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 $1,106.7 million to support its ongoing capital transportation program and $111.2 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 65 - 81 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 15, 2012 to prepare the final revenue and expenditure estimates upon which the fiscal year 2013 operating and capital budgets would be based. The most recent employment data for the State of Delaware has indicated that growth has ceased, therefore, the FY 2013 forecast anticipates no growth. There is an assumption in the forecast that the scheduled expiration of tax cuts in 2013 will be delayed for a year.

The fiscal year 2013 operating and capital budgets meet budgetary spending limitations imposed by law. The fiscal year 2013 operating budget is $3,544.5 million, 1.0% more than fiscal year 2012. The fiscal year 2013 operating budget included $115.3 million in supplemental appropriations (historically in the form of cash allocated to the capital budget), an increase of 26.7% over the fiscal year 2012 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 ASSETS
JUNE 30, 2012
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Cash and Pooled Investments	$ 1,695,854	$ 167,400	$ 1,863,254	$ 72,881
Receivables, Net (Note 3)	645,054	86,507	731,561	1,049,952
Internal Balances	6,753	(6,753)	-	-
Deferred Bond Issuance Costs	1,157	-	1,157	13,079
Other Post-Employment Benefits Asset	-	-	-	3
Inventories	8,121	18,528	26,649	920
Prepaid Items	-	3,806	3,806	4,351
Escrow insurance Deposits	-	317	317	-
Investments - Noncurrent	-	25,809	25,809	182,868
Deposit on Hold with Trustee	54,175	-	54,175	-
Other Assets	-	2,437	2,437	6,544
Restricted Assets:				
Cash and Pooled Investments	519,836	244,367	764,203	59,253
Other Restricted Assets	-	-	-	12,995
Capital Assets: (Note 12)				
Non-Depreciable Assets	983,700	3,843,595	4,827,295	182,708
Depreciable Capital Assets, Net	2,647,203	191,257	2,838,460	401,292
Total Capital Assets	3,630,903	4,034,852	7,665,755	584,000
Total Assets	6,561,853	4,577,270	11,139,123	1,986,846
LIABILITIES				
Accounts Payable	510,474	51,562	562,036	11,270
Accrued Liabilities	43,529	43,114	86,643	22,313
Accrued Interest Payable	33,242	24,416	57,658	-
Unearned Revenues	13,725	-	13,725	2,972
Escrow Deposits	-	3,952	3,952	32,237
Other Liabilties	-	-	-	3,432
Advances From Federal Government	-	77,061	77,061	-
Long-term Liabilitites:				
Due Within One Year: (Note 10)	244,673	103,940	348,613	41,193
Due In More Than One Year: (Note 10)	3,734,563	1,232,755	4,967,318	1,044,637
Total Liabilities	4,580,206	1,536,800	6,117,006	1,158,054
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	1,851,218	2,956,316	4,807,534	379,071
Restricted For:				
Debt Service	-	169,954	169,954	-
Federal and State Regulations	409,534	-	409,534	290,806
Bond Covenants	-	-	-	22,773
Capital Projects	-	-	-	41,429
Other Purposes	110,302	-	110,302	13,631
Unrestricted	(389,406)	(85,800)	(475,206)	81,082
Total Net Assets	$ 1,981,648	$ 3,040,470	$ 5,022,118	$ 828,792

See Accompanying Notes to the Financial Statements

State of Delaware

Statement of Activities
For the Year Ended June 30, 2012
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenues and Changes in Net Assets			
			Grants and Contributions		Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating**	**Capital**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Primary Government:								
Governmental Activities:								
General Governmental Services	$ 654,311	$ 166,979	$ 45,485	$ -	$ (441,847)	$ -	$ (441,847)	$ -
Health and Children Services	2,386,475	98,430	1,046,628	-	(1,241,417)	-	(1,241,417)	-
Judicial and Public Safety	660,053	75,713	41,237	-	(543,103)	-	(543,103)	-
Natural Resources and Environmental Control	161,354	50,587	47,477	-	(63,290)	-	(63,290)	-
Labor	79,706	7,089	41,667	-	(30,950)	-	(30,950)	-
Education	2,372,080	22,796	319,437	-	(2,029,847)	-	(2,029,847)	-
Interest on Long-term Debt	61,111	-	-	-	(61,111)	-	(61,111)	-
Total Governmental Activities	6,375,090	421,594	1,541,931	-	(4,411,565)	-	(4,411,565)	-
Business-type Activities:								
Lottery	386,241	714,303	-	-	-	328,062	328,062	-
DelDot	641,850	449,270	-	199,214	-	6,634	6,634	-
Unemployment	247,932	122,334	109,037	-	-	(16,561)	(16,561)	-
Total Business-type Activitites	1,276,023	1,285,907	109,037	199,214	-	318,135	318,135	-
Total Primary Governments	$ 7,651,113	$ 1,707,501	$ 1,650,968	$ 199,214	$ (4,411,565)	$ 318,135	$ (4,093,430)	$ -
Component Units:								
Delaware State Housing Authority	$ 115,676	$ 52,685	$ 86,530	$ 1,133	-	-	-	24,672
Diamond State Port Corporation	34,828	33,965	-	516	-	-	-	(347)
Riverfront Development Corporation	10,084	1,980	294	3,948	-	-	-	(3,862)
Delaware State University	117,182	53,618	30,880	14,996				(17,688)
Delaware Technical & Community College Educational Foundation	907	506	1,185	-	-	-	-	784
Delaware Charter Schools	111,644	9,912	8,259	605	-	-	-	(92,868)
Total Component Units	$ 390,321	$ 152,666	$ 127,148	$ 21,198	-	-	-	(89,309)
General Revenues:								
Taxes:								
Personal Income					1,126,014	-	1,126,014	-
Business					1,834,684	-	1,834,684	-
Real Estate					473,351	-	473,351	-
Other					241,525	-	241,525	-
Unrestricted Payments from Primary Government					-	-	-	131,268
Investment Income (Loss)					32,849	4,029	36,878	(2,915)
Gain (Loss) on Disposal of Assets					-	308	308	1,518
Miscellaneous					24,103	-	24,103	(468)
Transfers In (Out)					287,903	(287,903)	-	-
Total General Revenues					4,020,429	(283,566)	3,736,863	129,403
Changes in Net Assets					(391,136)	34,569	(356,567)	40,094
Net Assets - Beginning					2,372,784	3,005,901	5,378,685	788,698
Net Assets - Ending					$ 1,981,648	$ 3,040,470	$ 5,022,118	$ 828,792

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012
(Expressed in Thousands)

	General	Federal	Local School District Fund	Capital Projects	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	$ 357,377	$ 6,938	$ 12,557	$ -	$ 376,872
Cash on Hold in Trust	54,175	-	-	-	54,175
Investments	1,402,242	-	307,416	128,528	1,838,186
Accounts Receivable, Net	71,813	14,918	473	-	87,204
Taxes Receivable, Net	87,770	-	34,374	-	122,144
Intergovernmental Receivables, Net	-	148,903	-	-	148,903
Loans and Notes Receivable	37,587	249,216	-	-	286,803
Due from Other Funds	46,016	-	-	-	46,016
Prepaid Items	72	-	-	-	72
Inventories	8,121	-	-	-	8,121
Total Assets	2,065,173	419,975	354,820	128,528	2,968,496
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts Payable	386,666	87,701	17,881	18,226	510,474
Accrued Liabilities	43,529	-	-	-	43,529
Claims and Judgments	1,331	-	-	-	1,331
Escheat Liability	95,000	-	-	-	95,000
Due to Other Funds	1,689	37,574	-	-	39,263
Deferred Revenues	139,965	279,070	30,542	-	449,577
Total Liabilities	668,180	404,345	48,423	18,226	1,139,174
Fund Balances					
Nonspendable	8,121	-	-	-	8,121
Restricted	87,507	15,630	306,397	110,302	519,836
Committed	236,896	-	-	-	236,896
Assigned	100,483	-	-	-	100,483
Unassigned	963,986	-	-	-	963,986
Total Fund Balances	1,396,993	15,630	306,397	110,302	1,829,322
Total Liabilities and Fund Balances	$ 2,065,173	$ 419,975	$ 354,820	$ 128,528	$ 2,968,496

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$	1,829,322
Amounts reported for governmental activities in the statement of net assets 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	447,812		
Land Improvements	155,604		
Buildings	2,416,856		
Easements	291,105		
Equipment, Vehicles and Software	74,743		
Construction-In Progress	244,783		
			3,630,903
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.			435,852
Some liabilities net of related assets are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:			
Interest Payable	(33,242)		
Claims and Judgments (Current and Long-term)	(158,419)		
Compensated Absences (Current and Long-term)	(166,879)		
Net Other Post Employment Benefits Obligation	(1,496,513)		
Pollution Remediation Obligations (Current and Long-term)	(29,786)		
Net Pension Obligation	(117,874)		
General Obligation Long-term Debt and Related Accounts	(1,907,300)		
Other Long-term Obligations	(4,416)		
			(3,914,429)
Net Assets of Governmental Activities		$	1,981,648

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Expressed in Thousands)

	General	Federal	Local School District Fund	Capital Projects	Total Governmental Funds
Revenues					
Personal Taxes	$ 1,095,477	$ -	$ -	$ -	$ 1,095,477
Business Taxes	1,811,522	-	-	-	1,811,522
Other Tax Revenue	241,276	-	473,322	-	714,598
Licenses, Fees, Permits and Fines	330,081	9,891	379	-	340,351
Rentals and Sales	108,131	8	10,700	-	118,839
Grants	32,590	1,493,629	1,815	-	1,528,034
Interest and Other Investment Income	30,039	53	2,758	-	32,850
Other	185,655	1,331	19,370	-	206,356
Total Revenues	3,834,771	1,504,912	508,344	-	5,848,027
Expenditures					
Current:					
General Government	598,208	26,408	-	-	624,616
Health and Children's Services	1,313,114	1,045,179	-	-	2,358,293
Judicial and Public Safety	562,523	40,112	-	-	602,635
Natural Resources and Environmental Control	109,554	44,932	-	-	154,486
Labor	31,997	40,447	-	-	72,444
Education	1,325,997	274,200	469,272	-	2,069,469
Unrestricted Payments to Component Unit - Education	104,511	-	26,757	-	131,268
Capital Outlay	-	-	-	187,704	187,704
Debt service:					
Principal	139,325	-	-	-	139,325
Interest and Other Charges	72,293	-	-	-	72,293
Costs of Issuance of Debt	548	-	-	-	548
Total Expenditures	4,258,070	1,471,278	496,029	187,704	6,413,081
Excess (Deficiency) of of Revenues Over (Under) Expenditures	(423,299)	33,634	12,315	(187,704)	(565,054)
Other Sources (Uses) of Financial Resources					
Transfers In	486,535	-	54,178	-	540,713
Transfers Out	(64,851)	(34,758)	(98,367)	(54,834)	(252,810)
Issuance of General Obligation Bonds	-	-	-	275,425	275,425
Issuance of Revenue Bonds - SEU	56,170	-	-	-	56,170
Issuance of Advanced Refundings	(54,834)	-	-	-	(54,834)
Premiums on Bond Sales	-	-	-	37,347	37,347
Total Other Sources (Uses) of Financial Resources	423,020	(34,758)	(44,189)	257,938	602,011
Net Change in Fund Balances	(279)	(1,124)	(31,874)	70,234	36,957
Fund Balances - Beginning	1,397,272	16,754	338,271	40,068	1,792,365
Fund Balances (Deficits) - Ending	$ 1,396,993	$ 15,630	$ 306,397	$ 110,302	$ 1,829,322

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE NET CHANGES IN FUND BALANCES -
TOTAL GOVERNMENT FUNDS TO CHANGE IN NET ASSETS
OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Expressed in Thousands)

Net Changes in Fund Balances		$ 36,957
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	204,261	
Depreciation Expense	(101,373)	
		102,888
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(50,311)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Components of the debt related adjustments consist of:		
Debt Service Principal Repayments	139,325	
Advanced Refunding Payments	54,834	
SEU Revenue Bonds	(56,170)	
New Debt Issued (Face Value)	(275,425)	
Premium Received	(37,347)	
Issuance costs	548	
Amortization of Premium/Issuance Costs	15,679	
		(158,556)
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		(4,493)
Claims and Judgments		(17,302)
Compensated Absences		4,079
Other Post Employment Benefits		(292,412)
Pollution Remediation Obligation		(11,275)
Pension Obligation		(106)
Notes Payable		77
Other Liabilities		(682)
Change in Net Assets of Governmental Activities		$ (391,136)

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
ASSETS				
Current assets:				
Cash and Cash Equivalents	$ 22,493	$ 6,951	$ 43,307	$ 72,751
Cash and Cash Equivalents - Restricted	-	-	9,197	9,197
Investments	-	-	94,649	94,649
Investments - Restricted	-	273	171,577	171,850
Accounts Receivable, Net	12,036	10,508	16,520	39,064
Taxes Receivable, Net	18,707	-	-	18,707
Intergovernmental Receivables, Net	5,693	-	22,400	28,093
Interest Receivable	-	-	643	643
Inventories	-	-	18,528	18,528
Escrow Insurance Deposits	-	-	317	317
Due from Other Funds	1,689	-	-	1,689
Prepaid Items	-	-	786	786
Total Current Assets	60,618	17,732	377,924	456,274
Noncurrent Assets:				
Investments	-	-	25,809	25,809
Investments - Restricted	-	207	63,113	63,320
Interest Receivable				-
Other Assets	-	2,437	-	2,437
Prepaid Pension	-	-	3,020	3,020
Capital Assets, Non-depreciable	-	-	3,843,595	3,843,595
Capital Assets, Depreciable, Net	-	-	191,257	191,257
Total Noncurrent Assets	-	2,644	4,126,794	4,129,438
Total Assets	60,618	20,376	4,504,718	4,585,712
LIABILITIES				
Current Liabilities:				
Accounts Payable	-	6,229	45,333	51,562
Accrued Liabilities	32,192	-	6,557	38,749
Interest Payable	1,689	-	22,727	24,416
Compensated Absences	-	-	6,841	6,841
Prizes Liability	-	4,365	-	4,365
Escrow Deposits	-	-	3,952	3,952
Pollution Remediation Obligations	-	-	891	891
Insurance Loss Reserve	-	-	2,922	2,922
General Obligation Long-term Debt	-	-	195	195
Revenue Bonds, Net of Unamortized Premium	-	-	93,091	93,091
Tax Refunds Payable	-	-	-	-
Advances from Federal Government	76,412		649	77,061
Due to Other Funds	-	3,916	4,526	8,442
Total Current Liabilities	110,293	14,510	187,684	312,487
Noncurrent Liabilities:				
Other Post-employment Benefits Payable	-	2,222	143,670	145,892
Compensated Absences	-	-	9,992	9,992
Return of Federal Funds	-	-	3,000	3,000
Pollution Remediation Obligations	-	-	4,448	4,448
Insurance Loss Reserve			6,087	6,087
Liabilities Payable from Restricted Assets	-	2,644	-	2,644
General Obligation Long-term Debt	-	-	246	246
Revenue Bonds, Net of Unamortized Premium	-	-	1,060,446	1,060,446
Total Noncurrent Liabilities	-	4,866	1,227,889	1,232,755
Total Liabilities	110,293	19,376	1,415,573	1,545,242
Net Assets:				
Invested in Capital Assets, Net of Related Debt	-	-	2,956,316	2,956,316
Restricted for:				
Debt Service	-	-	169,954	169,954
Unrestricted	(49,675)	1,000	(37,125)	(85,800)
Total Net Assets	(49,675)	$ 1,000	$ 3,089,145	$ 3,040,470

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Operating Revenues:				
Unemployment Taxes-State Funded	$ 101,279	$ -	$ -	$ 101,279
Unemployment Taxes-Federal Funded	109,037	-	-	109,037
Gaming Revenue	-	714,303	-	714,303
Pledged Revenues:				
Turnpike Revenue	-	-	117,133	117,133
Motor Vehicle and Related Revenue	-	-	258,667	258,667
Turnpike Revenue	-	-	44,889	44,889
Passenger Fares	-	-	14,573	14,573
Miscellaneous	21,055	-	14,008	35,063
Total Operating Revenues	231,371	714,303	449,270	1,394,944
Operating Expenses:				
Unemployment Benefits - State Funded	134,414	-	-	134,414
Unemployment Benefits - Federal Funded	111,330	-	-	111,330
Cost of Sales	-	288,229	-	288,229
Prizes	-	85,649	-	85,649
Transportation	-	-	567,971	567,971
Depreciation	-	1	23,026	23,027
General and Administrative	-	11,362	8,781	20,143
Total Operating Expenses	245,744	385,241	599,778	1,230,763
Operating Income (Loss)	(14,373)	329,062	(150,508)	164,181
Nonoperating Revenues (Expenses):				
Investment Income	-	-	4,029	4,029
Interest Expense	(2,188)	-	(42,072)	(44,260)
Loss on Note Receivable	-	-	-	-
Contributions to Thoroughbred Program	-	(1,000)	-	(1,000)
Loss on Disposal of Assets	-	-	308	308
Total Nonoperating Revenues (Expenses)	(2,188)	(1,000)	(37,735)	(40,923)
Income (Loss) Before Transfers and Capital Contributions	(16,561)	328,062	(188,243)	123,258
Capital Contributions	-	-	199,214	199,214
Transfers In	3,422	-	43,247	46,669
Transfers Out	-	(328,062)	(6,510)	(334,572)
Increase (Decrease) in Net Assets	(13,139)	-	47,708	34,569
Net Assets - Beginning of Year	(36,536)	1,000	3,041,437	3,005,901
Net Assets - End of Year	$ (49,675)	$ 1,000	$ 3,089,145	$ 3,040,470

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Cash Flows from Operating Activities:				
Receipts from Employers	$ 102,029	$ -	$ -	$ 102,029
Receipts from Federal Government	107,563	-	-	107,563
Payments for Insurance Claims	(252,095)	-	(2,907)	(255,002)
Receipts from Customers and Users	-	709,210	445,181	1,154,391
Other Operating Receipts	21,055	-	2,249	23,304
Payments to Suppliers for Goods and Services	-	(43,178)	(407,817)	(450,995)
Payments to Employees for Services	-	(5,772)	(122,416)	(128,188)
Payments for Prizes	-	(85,817)	-	(85,817)
Payment for Commissions	-	(248,532)	-	(248,532)
Net cash Provided (Used) by Operating Activities	(21,448)	325,911	(85,710)	218,753
Cash Flows from Noncapital Financing Activities:				
Advances from Federal Government	15,622	-	-	15,622
Transfers In	-	-	43,247	43,247
Transfers Out	-	(325,779)	(6,511)	(332,290)
Net Cash Provided (Used) by Noncapital Financing Activities	15,622	(325,779)	36,736	(273,421)
Cash Flows from Capital and Related Financing Activities:				
Capital Grants	-	-	185,410	185,410
Purchases of Capital Assets	-	-	(115,201)	(115,201)
Principal Paid on Capital Debt	-	-	(76,667)	(76,667)
Interest Paid on Capital Debt	(1,826)	-	(56,566)	(58,392)
Proceeds from Sale of Land and Equipment	-	-	1,262	1,262
Proceeds from Issuance of Debt	-	-	222,870	222,870
Premium from Bond Sale	-	-	41,765	41,765
Payment to Escrow Agent for Refunding of Debt	-	-	(270,163)	(270,163)
Federal Reimbursement of Debt Service	-	-	12,076	12,076
Net Cash Used by Capital and Related Financing Activities	(1,826)	-	(55,214)	(57,040)
Cash Flows from Investing Activities:				
Interest and Investment Revenues	-	-	3,274	3,274
Repayment on Loan Receivable	-	-	821	821
Escrow Deposits Received	-	-	(41)	(41)
Purchase of Investments	-	-	3,287,877	3,287,877
Proceeds from Sales and Maturities of Investments	-	635	(3,253,407)	(3,252,772)
Net Cash Provided by Investing Activities	-	635	38,524	39,159
Net Increase (Decrease) in Cash and Cash Equivalents	(7,652)	767	(65,664)	(72,549)
Cash and Cash Equivalents - Beginning of Year	30,145	6,184	118,168	154,497
Cash and Cash Equivalents - End of Year	22,493	6,951	52,504	81,948
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	(14,373)	329,062	(150,508)	164,181
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	-	1	23,026	23,027
Decrease (Increase) in Assets:				
Receivables, Net	784	(5,093)	(2,490)	(6,799)
Inventories	-	-	(1,428)	(1,428)
Prepaid Items	-	-	(518)	(518)
Increase (Decrease) in Liabilities:				
Accounts and Other Payables	(6,351)	-	8,572	2,221
Accrued Liabilities	-	(41)	4,231	4,190
Accrued Expenses	-	(169)	(1,277)	(1,446)
Accrued Payroll and Related Expenses	-	2,151	(2,179)	(28)
Post-Employment Benefits	-	-	32,335	32,335
Due To/From Government	(1,508)	-	4,526	3,018
Net Cash Provided (Used) by Operating Activities	$ (21,448)	$ 325,911	$ (85,710)	$ 218,753

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2012
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust	Agency
Assets:				
Cash and Cash Equivalents	$ 503,267	$ 26,781	$ 2,793	$ 28,256
Receivables:				
Accrued Interest	17,892	-	89	-
Investment Sales Pending	24,100	-	125	-
Employer Contributions	9,504	6,499	-	-
Member Contributions	2,805	65	-	-
Other Receivables	-	-	-	42,612
Investments, at Fair Value:				
Domestic Fixed Income	619,698	56,966	7,253	-
Domestic Equities	1,585,152	55,699	12,152	-
Pooled Equity and Fixed Income	1,867,379	-	9,652	-
Alternative Investments	1,892,697	-	9,782	-
Short Term Investments	-	-	-	29,619
Foreign Fixed Income	160,277	-	828	-
Foreign Equities	835,398	29,790	6,437	-
Total Assets	7,518,169	175,800	49,111	100,487
Liabilities:				
Accounts Payable	-	-	-	100,487
Investment Purchase Payable	14,499	-	75	-
Benefits/Claims Payable	1,355	12,702	-	-
Accrued Investment Expense	4,304	5	22	-
Accrued Administrative Expenses	255	6	-	-
Total Liabilities	20,413	12,713	97	100,487
Net Assets:				
Assets Held in Trust for Benefits and Pool Participants	$ 7,497,756	$ 163,087	$ 49,014	$ -

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust
Additions:			
Contributions:			
Employer Contributions	$ 204,062	$ 186,129	$ -
Transfer from Post-Retirement Increase Fund	8,371	-	-
Transfer of Assets from Outside the System	2,918	-	661
Member Contributions	57,226	-	-
Other	29	6,494	-
Total Contributions	272,606	192,623	661
Investments:			
Investment Earnings	115,525	3,280	587
Net Increase (Decrease) in Fair Value of Investments	28,769	(963)	324
Total Investment Earnings	144,294	2,317	911
Less Investment Manager/Advisor/Custody Fees	(20,791)	(63)	(112)
Less Investment Administrative Expenses	(620)	-	-
Net Investment Earnings	122,883	2,254	799
Total Additions	395,489	194,877	1,460
Deductions:			
Transfer of Assets from Post-Retirement Increase Fund	8,371	-	-
Transfer of Assets from Outside the System	-	-	803
Pension/Claim Payments	484,592	175,227	-
Refunds of Contributions to Members	4,490	-	-
Group Life Payments	5,130	-	-
Administrative Expenses	5,739	51	1
Total Deductions	508,322	175,278	804
Change in Net Assets	(112,833)	19,599	656
Net Assets - Beginning of Year	7,610,589	143,488	48,358
Net Assets - End of Year	$ 7,497,756	$ 163,087	$ 49,014

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2012
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC * Educational Foundation	Delaware Charter Schools	All Component Units Total
ASSETS							
Current Assets:							
Cash and Cash Equivalents	$ 16,365	$ 4,889	$ 287	$ 21,226	$ 694	$ 29,420	$ 72,881
Investments	95,360	-	-	-	11,583	6	106,949
Investments - Restricted	-	-	-	661	-	-	661
Accounts and Other Receivabless, Net	39,489	2,337	200	13,876	-	697	56,599
Loans and Notes Receivables, Net	12,621	-	275	-	-	-	12,896
Other Post-Employment Benefits (OPEB) Asset	3	-	-	-	-	-	3
Inventories	-	920	-	-	-	-	920
Prepaid Items	3,661	561	64	-	-	65	4,351
Deferred Bond Issuance Costs	528	-	-	-	-	-	528
Other Restricted Assets	-	-	-	-	55	-	55
Other Current Assets	-	-	-	16	-	28	44
Total Current Assets	168,027	8,707	826	35,779	12,332	30,216	255,887
Noncurrent Assets:							
Cash and Cash Equivalents	933	13,895	2,000	27,831	-	13,933	58,592
Long-term Investments	54,954	-	-	20,915	50	-	75,919
Long-term Investments - Restricted	-	-	-	-	-	-	-
Accounts and Other Receivables, Net	8,644	-	-	-	-	-	8,644
Loans and Notes Receivable, Net	968,839	-	2,568	-	-	406	971,813
Capital Assets - Non-Depreciable	4,983	26,458	102,432	27,092	-	21,743	182,708
Capital Assets - Depreciable, Net	14,407	136,857	16,451	186,286	-	47,291	401,292
Deferred Bond Issuance Costs	7,670	-	-	1,843	-	3,038	12,551
Other Restricted Assets	-	-	-	5,486	7,454	-	12,940
Other Noncurrent Assets	-	-	1,507	288	-	4,705	6,500
Total Noncurrent Assets	1,059,497	163,315	122,958	241,910	7,504	77,183	1,672,367
Total assets	1,227,524	172,022	123,784	277,689	19,836	107,399	1,928,254
LIABILITIES							
Current liabilities:							
Accounts Payable	1,240	197	512	7,911	50	1,360	11,270
Accrued Liabilities	4	4,352	115	7,947	-	9,895	22,313
Deferred Revenue	-	42	60	2,670	-	200	2,972
Compensated Absences	22	-	-	-	-	166	188
Notes Payable	15,955	1,638	-	-	-	457	18,050
Revenue Bonds	18,644	-	-	-	-	556	19,200
Other Long-term Debt	-	-	985	1,631	-	1,139	3,755
Other Liabilities	-	-	-	-	7	-	7
Total Current Liabilities	35,865	6,229	1,672	20,159	57	13,773	77,755
Noncurrent Liabilities:							
Compensated Absences	938	-	-	5,754	-	1,488	8,180
Escrow Deposits	32,198	-	-	-	-	39	32,237
Notes Payable	-	26,706	-	-	-	18,208	44,914
Revenue Bonds	793,466	-	-	-	-	53,379	846,845
Long-term Debt	-	-	16,669	111,769	-	16,260	144,698
Other Liabilities	-	-	-	1,336	77	2,012	3,425
Total Noncurrent Liabilitites	826,602	26,706	16,669	118,859	77	91,386	1,080,299
Total Liabilities	862,467	32,935	18,341	139,018	134	105,159	1,158,054
Net Assets							
Invested in Capital Assets, Net of Related Debt	19,390	134,970	103,229	114,630		6,852	379,071
Restricted for:							
Federal and State Regulations	279,376	-	-	341	11,089	-	290,806
Bond Covenants	21,732	-	-	1,041	-	-	22,773
Capital Projects	6,345	13,895	-	16,400	-	4,789	41,429
Other Purposes	-	-	-	13,508	-	123	13,631
Unrestricted	39,147	4,117	4,214	20,582	8,613	4,409	81,082
Total Net Assets	$ 365,990	$ 152,982	$ 107,443	$ 166,502	$ 19,702	$ 16,173	$ 828,792

* Fiscal year-end December 31, 2011

See Accompanying Notes to the Financial Statements

STATE OF DELAWARE

Combining Statement of Activities
Component Units
For the Year Ended June 30, 2012
(Expressed in Thousands)

	Expenses	Program Income: Charges for Services	Program Income: Grants and Contributions: Operating	Program Income: Grants and Contributions: Capital	Net (Expenses) Revenues and Changes in Net Assets: Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC * Educational Foundation	Delaware Charter Schools	Total
Components Units											
Delaware State Housing Authority	$ 115,676	$ 52,685	$ 86,530	$ 1,133	$ 24,672	$ -	$ -	$ -	$ -	$ -	$ 24,672
Diamond State Port Corporation	34,828	33,965	-	516	-	(347)	-	-	-	-	(347)
Riverfront Business Improvement District	10,084	1,980	294	3,948	-	-	(3,862)	-	-	-	(3,862)
Delaware State University	117,182	53,618	30,880	14,996	-	-	-	(17,688)	-	-	(17,688)
Delware Technical Community College (DTCC) Educational Foundation	907	506	1,185	-	-	-	-	-	784	-	784
Delaware Charter Schools	111,644	9,912	8,259	605	-	-	-	-	-	(92,868)	(92,868)
	$ 390,321	$ 152,666	$ 127,148	$ 21,198	24,672	(347)	(3,862)	(17,688)	784	(92,868)	(89,309)
General Revenues											
Unrestricted Payments from Primary Government					-	-	-	32,771	-	98,497	131,268
Investment Income (Loss)					1,661	(1,176)	48	(3,455)	(159)	166	(2,915)
Gain (Loss) on Disposal of Assets					-	-	1,981	(463)	-	-	1,518
Miscellaneous					-	-	-	(1,024)	-	556	(468)
Total General Revenues					1,661	(1,176)	2,029	27,829	(159)	99,219	129,403
Change in Net Assets					26,333	(1,523)	(1,833)	10,141	625	6,351	40,094
Net Assets - Beginning of Year					339,657	154,505	109,276	156,361	19,077	9,822	788,698
Net Assets - Ending of Year					$ 365,990	$ 152,982	$ 107,443	$ 166,502	$ 19,702	$ 16,173	$ 828,792

(*) The fiscal year ended December 31, 2011

See Accompanying Notes to the Financial Statements

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. The State's 19 local school districts are fiscally dependent and not legally separate from the State. As per the interpretation of Article X, Section 2 of the State's Constitution, the local school districts are included in the reporting entity of the primary government. The DelDOT enterprise fund, which includes the Transportation Trust Fund and the Delaware Transit Corporation, is also included in the reporting entity of the primary government. Fiduciary funds, although legally separate entities, are in substance part of the State's operations. The State's reporting entity is also comprised of its component units, entities for which the State is considered to be financially accountable. 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.

Financial accountability is defined in GASB Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* 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, 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; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a blended 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 year ended June 30, 2012 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; however, it provides services and benefits almost exclusively to the primary government. The OPEB Trust is considered a blended component unit and is shown in the financial statements as part of the primary government as an OPEB trust fund.

The Sustainable Energy Utility (SEU) is a 501(c)3 nonprofit organization, which was established to reduce energy waste and foster a sustainable energy future for the State. It provides benefits almost exclusively to the primary government. The SEU is considered a blended component unit and is shown as part of the Natural Resources and Environmental Control function throughout the financial statements for 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 or incomplete. The component unit's column of the basic financial statements includes the financial data of these entities. Except for the Delaware Technical and Community College Educational Foundation, which has a fiscal year-end of December 31, 2011, each discretely presented component unit has a June 30, 2012 fiscal year-end.

Delaware State Housing Authority

The Delaware State Housing Authority (DSHA) is a public corporation whose Director is appointed by and reports directly to the Governor of the State. The DSHA administers the role of providing affordable housing as a key aspect of State policy. The DSHA's relationship with the State is such that exclusion of the DSHA from the State's basic financial statements would cause the statements to be misleading or incomplete. 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

The Diamond State Port Corporation (DSPC) 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 8 of the 15 members of the board of directors, with the advice and consent of the Senate. The DSPC's relationship with the State is such that exclusion of the DSPC from the State's basic financial statements would cause the statements to be misleading or incomplete.

Riverfront Development Corporation

The Riverfront Development Corporation (RDC) 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 18 board members; however, seven of the remaining 11 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.

Delaware State University

Delaware State University (DSU) 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 15 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 Housing Foundation and the Delaware State University Foundation, Inc.

Delaware Technical and Community College Educational Foundation

The Delaware Technical and Community College Educational Foundation (the Foundation) is a component unit of the State. The Foundation was established on November 13, 1968 by a trust agreement. On April 20, 1999, the Foundation revised the trust document incorporating all previous amendments to the previous trust document. The trust agreement stipulates that the activities of the Foundation be limited to such educational purposes that come under Section 501(c) (3) of the Internal Revenue Code. Activities include, but are not limited to, making contributions, gifts or grants, or otherwise rendering financial aid and assistance by direct payments to DTCC and providing financial assistance to qualified students. The Foundation has a fiscal year-end of December 31, 2011.

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. Charter schools are each managed by a board of directors, which 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. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial.

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

Related Organizations

Officials of the State's primary government appoint a voting majority of the governing board of the Delaware Solid Waste Authority (DSWA). The primary government's accountability for DSWA does not extend beyond making the appointments. The financial activities of DSWA are not included in the State's financial statements.

The Governor appoints eight members of the governing board of the University of Delaware (the University). The remaining 20 members are elected separately. The primary government's accountability does not extend beyond State grants to the University. The financial activities of the University are not included in the State's financial statements.

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 12 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 these financial statements as the State of Delaware has no ongoing financial interest or financial responsibility.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary 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 assets 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 assets. Net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are restricted when constraints placed on them 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. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

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.

Amounts reported as program revenues in governmental-wide financial statements include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 grant requirements 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 operating 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 video lottery and table games is recognized, net of prizes paid, at the time the public plays the game. Revenue from sports lottery is also recognized at time 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. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS 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 assets 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.

The financial report of DPERS for the year ended June 30, 2012, 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, DE 19904-2402.

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 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.

Impact of Future Accounting Pronouncements

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity: Omnibus and amendment of 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. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012.

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. The State is currently evaluating the future impact of this statement.

In June of 2011, the GASB issued 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 Concept 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 Concept Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement 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 provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The State is currently evaluating the future impact of this statement.

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 Concept 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. In addition, GASB Concept Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in GASB Concept 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.

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

Deposits and Investments

All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents. For the purposes of the statement of cash flows, restricted cash is considered to be a cash equivalent. Investment securities with maturities of greater than one year are reported as long-term investments.

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.

The State presents its deposits and investments in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* an amendment to GASB Statement No. 3, *Deposits with Financial Institutions*, *Investments (including repurchase agreements) and Reverse Repurchase Agreements*. This standard requires that state and local governments, including public colleges and universities, disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas; credit risk, interest rate and maturity, interest rate sensitivity and foreign exchange exposure.

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 they are 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 asset:

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

The 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.
- Delaware Technical and Community College foundation has restricted assets based on donor stipulations.
- 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 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.

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 furtherance of public service rather than 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, and equipment of the primary government 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.

Advance from Federal Government

During the fiscal year ended June 30, 2012, 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 the unemployment fund is able. The *American Recovery and Reinvestment Act, Public Law 111-5, §2004*, provides that no interest shall accrue on advances to states covered by *Subchapter XII* during the period from the enactment of the law (February 11, 2009) through December 31, 2010. Interest on the outstanding balance began to accrue on January 1, 2011, and accrued interest totaled $1.7 million as of June 30, 2012. The outstanding advance balance totaled $76.4 million as of June 30, 2012.

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 type accounts, 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, and may not exceed 5% of the estimated general fund revenue for the ensuing fiscal year. Total funding of the budgetary reserve account was $186.4 million at June 30, 2012.

When resources meeting more than one of the classifications (excluding nonspendable) are comingled 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 assets. Net assets are comprised of three components: invested in capital assets, net of related debt; 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. Amounts not collected within 60 days of fiscal year-end are recorded as deferred revenue in the governmental funds. In addition to monetary transactions, federal grants also include non-monetary transactions related to the supplemental nutrition assistance program.

(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 $13.9 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of $26.7 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.

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 and 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 except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board in various pooled investment funds (State Investment Pool). 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, 2012, 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, which are described on pages 53 - 57.

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, 2012, the carrying amount of the primary government’s deposits was $458.8 million and the bank balance was $476.2 million. Of the $476.2 million bank balance, $106.1 million was fully insured; $22.5 million represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury; and the remaining $370.1 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 $28.3 million and the bank balance was $31.7 million. Of the $31.7 million bank balance, $19.1 million was fully insured and the remaining $12.6 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. 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, 2012, the primary government’s investments were $2,216.7 million. Of the primary government’s investments, $383.0 million was fully insured and collateralized. Included in the primary government’s investments of $2,216.7 million are agency funds. The amount of the agency funds’ investments was $29.6 million.

The following table provides information on $1,833.7 million of the primary government’s investments that are exposed to custodial credit risk; $721,665 of this amount represents the agency funds’ investments:

Investment Type		Fair Value (Expressed in Thousands)
Corporate Obligations	$	362,131
Municipal Obligations		10,013
U.S. Government Obligations		1,040,173
Other Obligations		240,731
Commercial Paper		71,494
Certificates of Deposit		109,064
	$	1,833,606

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, 2012:

Investment Type		**Fair Value** (Expressed in Thousands)	**Effective Duration (In Years)**
Corporate Obligations	$	362,131	1.34
Municipal Obligations		10,013	6.41
U.S. Government Obligations		1,224,323	1.52
Other Obligations		266,598	2.06
Commercial Paper		243,868	0.25
Certificates of Deposit		109,733	0.55
	$	2,216,666	

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, 2012, 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	$ 321,203	$ 204,518	$ 105,684	$ 11,001	$ -
Asset-Backed Securities	40,928	5,173	35,755	-	-
Municipal Obligations	10,013	1,622	5,466	-	2,925
U.S. Government Obligations					
U.S. Treasury Bonds, Notes	375,839	18,999	348,945	7,895	-
U.S. Agency Bonds, Notes	295,466	-	223,594	29,175	42,697
Non US Gov't Obligations	36,853	1,919	32,910	-	2,024
Other Obligations					
Private Placements	239,503	98,355	139,332	1,816	-
Pooled Investments	27,095	27,095	-	-	-
Short Term Investments					
Commercial Paper	243,868	243,868	-	-	-
Certificate of Deposit	109,733	109,133	600	-	-
U.S. Government Obligations					
U.S. Treasury Bonds, Notes	265,776	235,996	15,640	14,140	-
U.S. Agency Bonds, Notes	250,389	191,246	34,578	19,846	4,719
Total Investments	**$ 2,216,666**	**$ 1,137,924**	**$ 942,504**	**$ 83,873**	**$ 52,365**

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, 2012 the ratings are presented using S & P's rating scale:

Credit Risk - Quality Ratings
(Expressed in Thousands)

Investment Type	TOTAL	TSY	AGY	AAA	AA	A	BBB	A-1	NR
Long Term Investments									
Corporate Obligations									
Corporate Bonds	$ 321,203	$ -	$ -	$ 12,929	$ 249,120	$ 55,543	$ -	$ -	$ 3,611
Asset-Backed Securities	40,928	-	-	32,743	-	-	-	-	8,185
Municipal Obligations	10,013	-	-	415	6,325	-	970	-	2,303
U.S. Government Obligations									
U.S. Treasury Bonds, Notes	375,840	375,840	-	-	-	-	-	-	-
U.S. Agency Bonds, Notes	295,466	-	295,466	-	-	-	-	-	-
Other Obligations	36,853	-	-	33,831	-	3,022	-	-	0
Private Placements	239,503	568	-	51,784	113,993	2,672	-	-	70,486
Pooled Investments	27,095	26,615	-	-	-	-	-	-	480
Short Term Investments									
Certificate of Deposit	243,867	1,407	-	-	28,524	-	-	196,743	17,193
U.S. Government Obligations	109,733	-	-	-	36,735	24,750	-	-	48,248
U.S. Treasury Bonds, Notes	265,776	265,776	-	-	-	-	-	-	-
U.S. Agency Bonds, Notes	250,389	109,550	140,839	-	-	-	-	-	-
Total Investments	**$ 2,216,666**	**$ 779,756**	**$ 436,305**	**$ 131,702**	**$ 434,697**	**$ 85,987**	**$ 970**	**$ 196,743**	**$ 150,506**

TSY = Treasury

AGY = Agency which represents securities issued by government -sponsored enterprises that are not rated, but have an implied but not explicit guarantee from the federal government.

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, 2012, 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, 2012 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 (System) 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 $142.5 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 $57.0 million. The foreign equities type of mutual fund represents $29.8 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 $55.7 million is in an 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, 2012, 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 2012 and 2011, 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, 2012. 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 $530.5 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	$ 668	$ -	$ -	$ 668	$ -
Cash equivalents	434,338	434,338	-	-	-
Commercial Mortgage-Backed	1,429	-	-	-	1,429
Corporate Bonds	678,796	4,622	370,032	167,007	137,135
Corporate Convertible Bonds	530,520	18,184	388,974	36,806	86,556
Government Agencies	28,427	1,621	21,368	5,438	-
Government Bonds	57,468	27,627	6,056	7,186	16,598
Municipal/Provincial Bonds	17,189	-	13,173	-	4,016
Pooled Investments	934,405	-	-	931,362	3,043
Total	$ 2,683,240	$ 486,392	$ 799,603	$ 1,148,467	$ 248,777

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, 2012, 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	19.6%	$ 1,498,858
BBB to B	10.2%	778,307
CCC to C	0.8%	62,251
Less than C	0.0%	2,100
Less than C	0.1%	8,438
Not Rated	4.4%	333,286
Total:	35.1%	$ 2,683,240

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, 2012, the $505.9 million carrying amount of the System's cash and cash equivalents was comprised of $494.9 million of short-term investments and $11.0 million in deposits. The $10.8 million bank balance of deposits was subject to custodial credit risk because it was uninsured and uncollaterized. This amount includes pooled deposits of $181,000 which were held by the State Treasurer's Office.

Investment Concentration Risk

As of June 30, 2012, 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 $25.7 million in management fees to the venture alternative investment funds and partnerships for the fiscal year ended June 30, 2012. 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 $842.0 million in venture capital limited partnerships in varying amounts as of June 30, 2012, 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, 2012. The listing includes $4.7 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	$ 33,694	$ 19,639	$ 13,884	$ 171
Brazilian Real	21,681	13,397	8,284	-
British pound sterling	110,656	109,308	897	451
Canadian Dollar	42,342	20,165	21,933	244
Danish Krone	6,790	6,790	-	-
Euro	194,835	170,130	15,535	9,170
Hong Kong Dollar	62,795	62,545	-	250
Indonesian Rupiah	20,050	11,712	8,301	37
Japanese Yen	30,903	30,655	-	248
Mexican Peso	2,623	-	2,623	-
New Zealand Dollar	18,377	-	18,377	-
Norwegian Krone	17,233	2,640	14,593	-
Philippine Peso	14,307	14,307	-	-
Singapore Dollar	9,035	5,010	4,003	22
South Korean won	11,294	11,294	-	-
Swedish Krona	17,453	17,453	-	-
Swiss Franc	31,724	31,679	-	45
Thai Baht	6,722	6,722	-	-
Turkish Iira	11,236	11,095	-	141
Malaysian Ringgit	4,110	4,110	-	-
Total Foreign Currencies	$ 667,860	$ 548,651	$ 108,430	$ 10,779
Foreign Issued Investments Denominated in U.S. Dollars	348,441	291,050	57,391	-
Pooled International Investments Denominated in U.S. Dollars	191,169	191,169	-	-
Total	$ 1,207,470	$ 1,030,870	$ 165,821	$ 10,779

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. This policy, as amended, was incorporated in the formalized investment policy adopted by the Board 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, 2012 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.

COMPONENT UNITS

Diamond State Port Corporation (DSPC)

At June 30, 2012, the carrying value and the bank balances of the DSPC's deposits were $5.2 million and $2.2 million, respectively. Of the bank balances, $5.2 million is insured by the Federal Deposit Insurance Corporation (FDIC).

Riverfront Development Corporation (RDC)

At June 30, 2012, the book balance of RDC's deposits was $2,287 and the bank balance was $2,418. As of June 30, 2012 and 2011, the RDC had cash and cash equivalents of $6,532 and $32,667, respectively, held by Office of the State Treasurer in Dover, Delaware. Deposits include $2,000,109 and $116,677, respectively, of restricted cash and cash equivalents that have been assigned to the bank as collateral for repayment in the event of a default under the bond or collateral agreements. The deposits held by the State investment pool are uninsured and uncollateralized.

Delaware State University (DSU)

At June 30, 2012, the carrying value and bank balance of DSU's deposits were $24.8 million and $28.7 million, respectively. Of the bank balances, $.8 million is insured by the FDIC and $27.9 million is subject to custodial credit because it is uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization. An additional $17.6 million of cash and cash equivalents related to unexpended State appropriations are held by Office of the State Treasurer. The credit risk for these deposits depends on the investment decisions made by the Office of the State Treasurer.

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

At December 31, 2011, the DTCC Foundation's carrying value and bank balance was $694,358 and $250,000, respectively. The Foundation maintains cash balances at one financial institution located in Delaware. Accounts at the institution are insured by the FDIC up to $250,000. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware Charter Schools

At June 30, 2012, the Delaware Charter Schools deposits carrying value was $43.4 million.

Deposits include $29.8 million held in the State Investment Pool. Carrying value of the remainder of deposits was $13.6 million. Bank balances totaled $14.1 million, consisting of $.6 million insured by FDIC and $13.5 million uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware State Housing Authority (DSHA)

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 the State of Delaware Investment Pool, 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.

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 State's investments and the related maturities:

Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type	Fair Value	Less than 1	1 - 5	5 - 10	10 - 20	20 - 30
U.S. Treasury Notes	$ 13,993	$ 3,038	$ 10,675	$ -	$ 334	$ -
US Treasury Strips	927	463	368	-	133	-
U.S. Treasury Bonds	29	-	-	-	19	-
U.S. Agencies	44,505	10,539	17,735	-	-	15,954
Certificates of Deposit	40	40	-	-	-	-
Commercial Paper	12,946	12,996	-	-	-	-
Corporate Notes	9,654	567	8,975	-	-	-
Investment Agreements	1,646	-	-	-	382	1,264
Money Market Savings Accounts	27,306	27,306	-	-	-	-
Bank Money Market accounts	21,247	21,247	-	-	-	-
State of Delaware Investment Pool	18,021	18,021	-	-	-	-
Total Investments:	$ 150,314	$ 94,217	$ 37,753	$ -	$ 868	$ 17,218

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 & Multi-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, 2012, DSHA's investments were rated as follows:

Ratings (S & P)
(Expressed in Thousands)

Investment Type	AA+	AA-	AA-	A1+	A1	A
U.S. Agencies	$ 44,505	$ -	$ -	$ -	$ -	$ -
Corporate Notes	1,867	1,001	6,296	-	-	396
Commercial Paper	-	-	-	1,996	10,950	-
Total	$ 46,372	$ 1,001	$ 6,296	$ 1,996	$ 10,950	$ 396

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 $150.3 million investment balance, $1.6 million 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 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.

Diamond State Port Corporation (DSPC)

Assets restricted for capital improvements totaled $13.9 million as of June 30, 2012. These assets are invested in a mutual funds account with a Moody's rating of AAA.

Delaware State University (DSU)

Investments of DSU totaled $33.7 million stated at quoted market value, which consist of pooled investments. The investments are owned by DSU and are subject to categorization.

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

Investments of the DTCC Foundation totaled $11.5 million, stated at quoted market value. These investments consist of pooled investments where the DTCC Foundation does not own specific securities. An additional $49,770 is invested in life insurance, recorded at the cash surrender value.

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 deferred revenue. In the government-wide financial statements, receivables not expected to be collected during the subsequent year are recorded as noncurrent.

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable at June 30, 2012. 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
(Expressed in Thousands)

	General Fund	Federal Funds	Local School District Funds	Total Receivables
Receivables:				
Taxes	$ 215,052	$ -	$ 34,545	$ 249,597
Accounts	504,432	113,609	473	618,514
Loans and Notes	39,558	249,230	-	288,788
Intergovernmental	-	148,903	-	148,903
Total Receivables	759,042	511,742	35,018	1,305,802
Allowance for Doubtful Accounts	(561,872)	(98,705)	(171)	(660,748)
Total Receivables, Net	$ 197,170	$ 413,037	$ 34,847	$ 645,054
Amounts not Scheduled for Collection During the Subsequent Year	$ 72,269	$ 222,221	$ 22,724	$ 317,214

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

	Unemployment	Lottery	DelDOT	Total Receivables
Receivables:				
Taxes	$ 42,807	$ -	$ -	$ 42,807
Interest	-	-	643	643
Accounts	19,006	11,242	16,520	46,768
Intergovernmental	5,693	-	22,400	28,093
Total Receivables	67,506	11,242	39,563	118,311
Allowance for Doubtful Accounts	(31,070)	(734)	-	(31,804)
Total Receivables, Net	$ 36,436	$ 10,508	$ 39,563	$ 86,507
Amounts not Scheduled for Collection During the Subsequent Year	$ -	$ -	$ -	$ -

Deferred Revenues

Governmental funds report deferred 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 deferred revenue.

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

Deferred Revenues
(Expressed in Thousands)

Unavailable		
Taxes Receivable	$	84,517
Loans and Notes Receivables		284,622
Intergovernmental		13,897
Accounts Receivables		52,816
Subtotal Unavailable		435,852
Unearned		
Advance Park Reservation Fees		966
Federal Grant Advance Drawdowns		12,759
Subtotal Unearned		13,725
Total Deferred Revenue	$	449,577

NOTE 4 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

(a) Due From/Due 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 reporting entity. Amounts receivable from or payable to other levels of government are reported as intergovernmental receivables or payables. The composition of due from/due to balances at June 30, 2012, expressed in thousands, is as follows:

Receivable Fund	Payable Fund	Amount
General	Federal	$ 37,574
Unemployment	General Fund	(1,689)
General	Lottery	3,916
General	Deldot	4,526
	Total	$ 44,327

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 amount due from the Lottery fund (reported as an internal balance on the statement of net assets), represents profits required by law to be transferred to the general fund.

The amount due from DelDot is due to a borrowing from the State's general fund cash accounts.

The amount due to unemployment is from interest that the general fund owes the unemployment 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 assets, 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, and 3) move profits from the Lottery fund, as required by State law.

A schedule of transfers in and transfers out for the year ended June 30, 2012 is presented below (expressed in thousands):

	Transfers In	Transfers Out
Governmental funds		
General	$ 486,535	$ 64,851
Federal	-	34,758
Local School District	54,178	98,367
Capital	-	54,834
Proprietary Funds		
Unemployment	3,422	-
Lottery	-	328,062
DelDOT	43,247	6,510
Total of All Funds	$ 587,382	$ 587,382

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 November 15, 2011, the State issued $275.4 million of its general obligation bonds maturing between July 1, 2012 and July 1, 2031. Of the $275.4 million issued as Series 2011, $50.4 million was issued to refund higher priced bonds resulting in a net present value savings of $2.8 million, or 5.2% of the principal refunded. The Series 2011 bonds were sold to retail and institutional investors and bore coupons between 2% and 5% and yield between .21% and 3.46%.

The refunding Series 2011 resulted in an economic gain of $2.2 million and a debt service cash saving over the next four years of $2.8 million.

Bonds issued and outstanding totaled $1,696.5 million at June 30, 2012. Of this amount, $545.3 million is supported by property taxes collected by the local school districts. During fiscal year 2012, the local school district funds transferred $62.3 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 $161.1 million of general obligation bonds at June 30, 2012. 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, 2012
216	GO 2011A2	2.000%-5.000%	2031	$	174,520
215	GO 2011A1	2.000%-5.000%	2031		100,905
214	GO 2010D	4.550%	2029		59,580
213	GO 2010C	3.100%-4.600%	2030		115,775
212	GO 2010B2	5.00%	2023		95,570
211	GO 2010B1	2.000%-4.000%	2024		29,210
210	GO 2010A2	2.000%-3.000%	2018		26,250
209	GO 2010A1	1.500%-5.000%	2024		122,000
208	GO 2009D	3.700%-5.300%	2029		179,315
207	GO 2009C2	2.000%-3.000%	2024		41,350
206	GO 2009C1	3.000%-5.000%	2027		268,980
205	GO 2009B	4.750%-5.000%	2026		83,200
204	GO 2009A2	4.750%-5.000%	2017		5,275
203	GO 2009A1	4.750%-5.000%	2029		68,325
202	GO 2008B	4.750%-5.000%	2016		50,960
201	GO 2008A	3.000%-5.000%	2016		5,040
200	GO 2007A	4.000%-5.000%	2027		95,025
199	GO 2006C	0%	2022		1,433
198	GO 2006B	4.000%-5.500%	2026		76,960
197	GO 2006A	3.75%-4.500%	2026		12,925
196	GO 2005D	3.50%-5.0%	2025		26,400
195	GO 2005C	5%	2023		45,335
194	GO 2005B	2.625%-5.0%	2024		8,445
193	GO 2005A	2.25%-4.25%	2025		930
192	QZAB 2004B	0%	2020		224
190	QZAB 2003D	0%	2018		908
186	QZAB 2002B	0%	2016		760
170	GO 1992B	4.7%-6.1%	2012		859
		Total, Gross			1,696,459
		Plus: Unamortized Bond Premium			156,828
		Total General Obligation Bonds		$	1,853,287

The following table sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2012:

Total General Obligation Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2013	$ 154,439	$ 78,234	$ 232,673
2014	154,695	67,652	222,347
2015	140,695	60,822	201,517
2016	134,685	54,213	188,898
2017	129,510	47,980	177,490
2018-2022	459,602	169,129	628,731
2023-2027	331,133	82,661	413,794
2028-2032	191,700	19,020	210,720
Total	$ 1,696,459	$ 579,711	$ 2,276,170

Changes in general obligation bonded debt during the year ended June 30, 2012 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, 2012, a total of $282.3 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

Blended Component Units

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"). 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 $11.3 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, 2012, $56.2 million of the SEU Bonds issued to finance projects at State agencies remained.

Total Sustainable Energy Utility Revenue Bonds
(Expressed in Thousands)

Year	Principal	Interest	Total
2013	$ 1,775	$ 2,565	$ 4,340
2014	1,845	2,533	4,378
2015	3,185	2,485	5,670
2016	3,005	2,393	5,398
2017	3,155	2,254	5,409
2018-2022	10,570	9,642	20,212
2023-2027	13,005	7,002	20,007
2028-2032	16,210	3,696	19,906
2033-2037	3,420	384	3,804
Total	$ 56,170	$ 32,954	$ 89,124

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, 2012, the amount of defeased debt outstanding amounted to $312.8 million.

The Authority has a total of $235.6 million in authorized but unissued revenue bonds at June 30, 2012. Bonds outstanding at June 30, 2012 amounted to $1,087.7 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, 2012
Transportation System Senior Revenue Bonds - Series			
2002	5.25%	2022	$ 8,675
2003	5.00%	2023	51,720
2004	4.0% - 5.0%	2024	71,195
2005	4.25% - 5.0%	2025	70,825
2006	3.5% - 5.0%	2026	106,725
2007	4.0% - 5.0%	2021	66,485
2008	4.0% - 5.0%	2028	71,840
2008	4.0% - 5.0%	2029	110,245
2009	5.00%	2029	103,815
2010	4.0% - 5.0%	2019	44,385
2010	3.95% - 5.80%	2030	72,120
2012	3.0% - 5.0%	2024	222,870
Transportation System Grant Anticipation Bonds			
2010 Series	5.00%	2025	105,835
	Total, Gross		1,106,735
	Less: Deferred Amount on		(19,066)
	Total, Net		1,087,669
	Less: Current Portion of Debt Outstanding		(80,538)
	Long-term Portion of Debt Outstanding		$ 1,007,131

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

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2013	$ 83,230	$ 48,097	$ 131,327
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
2018-2022	366,785	128,329	495,114
2023-2027	271,790	49,290	321,080
2028-2031	83,880	7,362	91,242
Total	$ 1,106,735	$ 399,702	$ 1,506,437

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 at June 30, 2012 for the trust funds, which is the segment of DelDOT that supports the revenue bonds, is presented below and on the following page:

Condensed Balance Sheets
(Expressed in Thousands)

Assets:	
Current Assets	$ 301,710
Capital Assets	1,234,701
Other Assets	91,296
Total Assets	$ 1,627,707
Liabilities:	
Current Liabilities	146,103
Noncurrent Liabilities	1,066,306
Total Liabilities	1,212,409
Net Assets:	
Invested in Capital Assets, Net of Related Debt	156,164
Unrestricted	92,264
Restricted	166,870
Total Net Assets	415,298
Total Liabilities and Net Assets	$ 1,627,707

Condensed Statements of Revenues, Expense and Changes in Net Assets
(Expressed in Thousands)

Operating Revenues (Pledged Against Bonds)	$ 375,800
Other Operating Revenues	52,966
Depreciation Expense	(192)
Other Operating Expenses	(374,486)
Operating Income	54,088
Nonoperating Revenues (Expenses):	
Investment Income (Pledging Against Bonds)	3,160
Other Investment Income (Loss)	13,703
Interest Expense	(42,071)
Transfer from State General Fund	43,247
Change in Net Assets	72,127
Beginning Net Assets	343,172
Ending Net Assets	$ 415,299

Condensed Statements of Cash Flows
(Expressed in Thousands)

Net Cash Provided by (Used In):	
Operating Activities	$ 59,210
Noncapital Financing Activities	43,247
Capital and Related Financing Activities	(196,377)
Investing Activities	36,906
Net Increase (Decrease)	(57,014)
Beginning Cash and Cash Equivalents	81,544
Ending Cash and Cash Equivalents	$ 24,530

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 0.53% to 7.75% with maturities of such bonds up through January 1, 2049.

On July 18, 2011, the Authority issued $99.6 million of Single Family Mortgage Revenue Bonds 2011-1 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 the Treasury (US Treasury) under the US Treasury provides funding for bond assistance. The proceeds from the sale were used to provide low rate mortgages to first-time homebuyers.

On October 28, 2011, the Authority issued $36.8 million of Single Family Mortgage Revenue Bonds 2011 Series A/B to fully refund the Single Family Mortgage Revenue Bonds 1997 Series B, 1999 Series A, 2000 Series A, 2001 Series A and Series 2002 Series A and to make funds available for second mortgage loans. The outstanding mortgage loans in these refunds issues were transferred to the 2011 B issue.

On November 22, 2011, the Authority issued $76.7 million of Single Family Mortgage Revenue Bonds 2011-2 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 the Treasury (US Treasury) under the US Treasury provides funding for bond assistance. The proceeds from the sale were used to provide low rate mortgages to first-time homebuyers.

Revenue bonds payable decreased by $18.0 million due to accretion on capital appreciation bonds, netted by deferred amounts on refunding and bond forgiveness.

Outstanding bonds at June 30, 2012 amounted to $812.0 million. Future debt service requirements for DSHA's bonds are shown on the following table:

Delaware State Housing Authority Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2013	$ 18,644	$ 35,260	$ 53,904
2014	17,645	34,586	52,231
2015	17,995	33,869	51,864
2016	18,525	33,120	51,645
2017	19,105	32,335	51,440
2018-2022	106,345	147,684	254,029
2023-2027	129,174	119,616	248,790
2028-2032	147,804	86,378	234,182
2033-2037	198,979	50,882	249,861
2038-2042	102,217	13,546	115,763
2043-2047	20,875	4,067	24,942
2048-2049	14,802	178	14,980
Total	$ 812,110	$ 591,521	$ 1,403,631

Delaware State University (DSU)

Revenue bonds payable at June 30, 2012 are as follows:

Revenue Bonds Payable
(Expressed in Thousands)

Revenue Bonds	$ 3,107
Revenue Refunding Bonds	47,853
Energy Efficiency Revenue Bonds	12,099
Revenue Refunding Bonds Series 2012	33,988
Student Housing Foundation Bonds	15,674
Total Revenue Bonds Outstanding as of June 30, 2012	$ 112,721

On May 6, 1999, the University issued revenue refunding bonds in the amount of $15.9 million (par value) through the Delaware Economic Development Authority (the "Authority"). 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 $1.6 million. 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 1999 bonds were backed by MBIA, and have no letter of credit expiration date.

On March 1, 2012 the University issued revenue refunding bonds in the amount of $32.1 million (par value) through the Authority 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, DSU issued revenue bonds of $47.6 million (par value) through the Delaware Economic Development Authority (Delaware EDA). The bonds are due on October 1, 2036 and are secured by un-appropriated gross revenues of DSU. The 2007 bonds are 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. Pursuant to the Indenture, the Delaware EDA issued for the benefit of DSU, its $15.9 million revenue refunding bonds (Delaware State University Project) Series 1999 to advance refund all other Bonds then outstanding under the Indenture. The 2007 bonds are insured by MBIA Insurance Corporation. The bonds were secured for the construction of a new student union, a swimming pool, and a student wellness/recreation center. The Union will include a student club area, book store, copy center, mail services, game room, study area, commuter lounge, meeting rooms and administrative offices. The primary function of the pool is to provide a recreational environment. The student wellness/recreation center will serve student athletes in restricted areas and the general student population will have recreational courts, fitness equipment, intramural sports, and an academic component for wellness and health programs. It was noted that the 2007 bonds were backed by MBIA who had no letter of credit expiration date.

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 State of Delaware Sustainable Energy Utility, Inc. 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, 2012, $12.1 million including $.8 million 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 Delaware Economic Development Authority. 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 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, 2012 $34.0 million including $1.8 million of unamortized bond premium remained outstanding on the 2012 revenue bonds.

Delaware State University Revenue Bonds

Remaining maturities and interest due relating to the university's revenue bonds at June 30, 2012, follows:

Fiscal year	Principal Amount	Interest Amount	Balance Outstanding At June 30, 2012
2013	$ 1,180	$ 4,129	$ 5,309
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 - 2022	13,695	17,751	31,446
2023 - 2027	17,215	14,410	31,625
2028 - 2032	21,470	10,154	31,624
2033 - 2037	22,805	4,755	27,560
2038 - 2041	9,755	546	10,301
Total	94,120	67,767	161,887
Plus Unamortized Bond Premiums and Discount -	2,926		
Total Revenue Bonds Payable	$ 97,046		

The Delaware State University Student Housing Foundation (the Foundation), a component unit of DSU, is a non-profit corporation organized for the purpose of acquiring, developing, constructing, and operating student housing facilities primarily for students and faculty of DSU. The property is located in Dover, Delaware and the Foundation's development and construction project consists of three phases, collectively known as Phase I, II, and III. The Foundation has a fiscal year-end of June 30, 2012. The Foundation has issued student housing revenue bonds, secured by deed and payable solely from the revenues of the Foundation, for which bond proceeds were restricted to the development, construction, furnishing and equipping of the student housing facilities.

The Housing Foundation 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. Effective February 21, 2004 the Housing Foundation defeased the tax-exempt series 2000A and the tax exempt series 2002A term bonds at face value. Further, the letter of credit for the 2004A bonds were backed by ACA Financial Guaranty Corporation with no letter of credit expiration, whereas the 2004B bonds was backed by Wachovia (now Wells Fargo), who provided a letter of credit extension through January 2012. The letter of credit supporting the 2004B Bonds expired on January 20, 2012. As a result, the principal amount of $33.6 million was classified as a current liability in the June 30, 2011 Housing Foundation's Statement of Net Assets. This did not constitute a violation of the financial covenants contained in the Reimbursement Agreement between the Housing Foundation and Wells Fargo, the letter of credit bank. Effective March 1, 2012, the Housing Foundation's Series 2004B bonds were repaid by the University with proceeds of the University's Series 2012 Bonds.

The liability of the 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 2004 Bonds began on July 1, 2004. Total accrued interest on all bonds as of June 30, 2012 is $0.4 million.

Maturities of long-term debt at June 30, 2012 are as follows:

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

Description	**Interest Rates**	**Principal Amount**	**Interest Amount**	**Balance Outstanding At June 30, 2012**
2013	3.70%	$ 405	$ 769	$ 1,174
2014	4.00%	420	753	1,173
2015	4.00%	435	736	1,171
2016	4.20%	455	717	1,172
2017	4.30%	475	698	1,173
2018 - 2022	4.40-5.0%	2,710	3,133	5,843
2023 - 2027	5.00%	4,240	2,373	6,613
2028 - 2032	5.0-5.125%	4,610	1,398	6,008
2033 - 2037	5.125%	2,195	252	2,447
Total, Gross		15,945	10,829	26,774
Less: Unamortized Bond		(271)		
Long Term Portion of Debt Outstanding Revenue Bonds as of June 30, 2012		$ 15,674		

NOTE 7 LOANS AND NOTES PAYABLE

Component Units

Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2012 are shown below:

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

Transportation Trust Fund Loan	$ 19,433
City of Wilmington Port Debt Service Notes	5,956
Delaware River and Bay Authority	2,955
Total	$ 28,344

Transportation Trust Fund Loan

On November 30, 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.

In July 2006, the Transportation Trust Fund Loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006 and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next 22 years. Additionally, the State appropriated $10.0 million to be applied as a repayment of principal and interest on July 1, 2007. Beginning March 31, 2007, principal and interest payments are March 31 and May 31 each year. In June 2009, the loan was restructured to allow for the deferral of debt service principal and interest payments due March 31, 2010 and May 31, 2010, and to restructure the principal balance effective July 1, 2009 over the next 21 years. The interest rate was 3.99% during 2012 and 2011. The loan matures March 2029.

Interest expense charged to operations in 2012 was $0.8 million.

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

Transportation Trust Fund Loan
(Expressed in Thousands)

Year Ending June 30	**Principal**	**Interest**	**Total**
2013	$ 853	$ 774	$ 1,627
2014	888	740	1,628
2015	923	704	1,627
2016	960	667	1,627
2017	999	629	1,628
2018-2022	5,629	2,510	8,139
2023-2027	6,853	1,286	8,139
2028-2029	2,327	115	2,442
Total	$ 19,432	$ 7,425	$ 26,857

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%.

On October 20, 2001, the City issued $22.2 million of general obligation bonds with an average interest rate of 3.70% to advance refund $21.3 million of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. DSPC-related portions of the new bonds issued and old bonds redeemed were $7.2 million and $6.9 million, respectively, passed through to DSPC. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $0.3 million for the year ended June 30, 2002, it reduced DSPC's debt service payments by $0.3 million over eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven year life of the debt.

On October 5, 2004, the City issued $12.9 million of general obligation bonds with an average interest rate of 3.73% to advance refund $11.7 million of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of $0.2 million due January 1, 2005. DSPC-related portions of the new bonds issued and old bonds redeemed were $4.0 million and $3.6 million, respectively, passed through to DSPC. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $0.4 million, it reduces DSPC's debt service payments by $0.3 million over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2012 was $0.3 million.

On April 19, 2010, the City of Wilmington refunded Series 1993B, 2004B, and 2008A bonds, and those bonds were replaced by Series 2010A bonds, which the Corporation has correlating notes with the City. The immediate impact is a reduction in debt service of $1.06 million for 2011 and 2012. Overall, the Corporation will save $0.1 million in principal, resulting in an economic gain; however, the Corporation will pay an additional $0.9 million in interest over the next 13 years.

Total deferred loss balance as of June 30, 2012 was $0.3 million. The amortization of deferred loss is $0.01 million.

Principal and interest payments made on the note during 2012 were each $1.2 million.
Interest expense on the note in 2012 was less than a million.

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

Port Debt Service Note
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2013	$ 610	$ 291	$ 901
2014	661	264	925
2015	701	233	934
2016	742	195	937
2017	683	157	840
2018-2022	2,305	476	2,781
2023	540	13	553
Subtotal	6,242	1,629	7,871
Deferred Loss on Refunding	(286)	-	(286)
Total	$ 5,956	$ 1,629	$ 7,585

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 2012.

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

Delaware River and Bay Authority Obligation
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2013	$ 175	$ 86	$ 261
2014	181	81	262
2015	186	75	261
2016	192	70	262
2017	197	64	261
2018-2022	878	429	1,307
2023-2027	1,146	161	1,307
Total	$ 2,955	$ 966	$ 3,921

Wilmington Trust Company (WTC) Loan

DSPC entered into a loan agreement with WTC (now M&T Bank) on August 17, 2007 for $0.4 million to purchase two 45,000 lbs. Hyster forklifts. Monthly payments to WTC of $6,168 began on September 17, 2007. The loan was repaid early in December 2011.

Interest expense incurred on this obligation was less than a million during 2012.

Bank of America Master (BOA) Lease

In 2008, DSPC utilized the State of Delaware’s Master Lease program (as administered by BOA) to purchase the twelve forklifts for $0.3 million using two loans. Both loans are for ten years at interest rates of 2.88% and 3.23%, respectively. Payments began one month after the purchase dates. The obligation was repaid early in December 2011.

Interest expense incurred on this obligation was less than a million during 2012.

Riverfront Development Corporation (RDC)

The RDC has entered into multiple mortgage agreements with various banks. These mortgages are secured by the real estate and vehicles financed. Principal balances of the mortgages total $17.7 million at June 30, 2012. Interest rates for the mortgages vary between 5.45% and 8.00% and mature between June 2012 and November 2014.

Estimated future annual debt service requirements are shown as follows:

Riverfront Development Mortgage Debt
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2013	$ 985	$ 604	$ 1,589
2014	1,007	579	1,586
2015	10,121	392	10,513
2016	737	159	896
2017	4,625	80	4,705
Thereafter	179	5	184
Total	$ 17,654	$ 1,819	$ 19,473

NOTE 8 LEASE COMMITMENTS

Primary Government

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating $183.1 million, of which $156.8 million relates to property leases and $26.3 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 2012 were approximately $44.0 million, of which $24.1 million was for office space and $19.8 million, was for equipment. The equipment leases held by the State consists mainly of computers, data processing equipment and fleet vehicles.

Significant annual State's equipment rentals include $3.9 million for fleet vehicles and data processing equipment for the Office of Management and Budget and $1.1 million for data processing equipment for the State's Department of Education. Significant annual real estate rentals include $6.0 million for leases for Health and Social Services facilities, $2.2 million for the State's Department of Services for Children, Youth and Their Families, $2.9 million for office space for the State's Department of Correction, and $3.0 million for the State's Department of Labor.

Future minimum lease commitments for operating leases as of June 30, 2012 are shown in the following table:

Lease Commitments
(Expressed in Thousands)

Year Ending June 30	Operating Leases
2013	$ 35,754
2014	29,903
2015	23,070
2016	20,140
2017	18,469
2018-2022	45,053
2023-2027	9,363
2028-2032	1,385
Total	$ 183,137

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, 2012. 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. $166.9 million has been accrued for the Governmental Activities and $16.8 million in the Business-type Activities for the total compensated absences liability. The current portion of the long-term obligation for compensated absences is $12.8 million in the Governmental Activities and $6.8 million in the Business-type Activities. Approximately $140.3 million (84.0%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately $10.3 million (6.2%) and $16.3 million (9.8%) 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 obligation of $5.7 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, 2012:

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)	$ 117.8	$ 10.4	$ (10.2)	$ 118.0	$ -
Other Postemployment Benefits	1,204.1	515.0	(222.6)	1,496.5	-
Compensated Absences	171.0	6.2	(10.3)	166.9	12.8
Claims and Judgments (Notes 13 and 17)	141.1	56.7	(39.4)	158.4	34.8
Escheat Payable	87.5	26.3	(18.8)	95.0	19.0
Notes Payable	0.1	-	(0.1)	-	-
Pollution Remediation Obligations	18.5	15.1	(3.8)	29.8	6.5
Bonds Payable:					
General Obligation Bonds	1,611.8	224.3	(139.7)	1,696.4	154.4
Bond Issue Premium, Net of Accumulated Amortization	136.6	32.9	(12.7)	156.8	11.1
Revenue Bonds	-	56.2	-	56.2	1.8
Physician and Scholarship Programs	4.8	2.1	(1.7)	5.2	1.3
Governmental Activities Long-term Liabilities Total:	$ 3,493.3	$ 945.2	$ (459.3)	$ 3,979.2	$ 241.7
Business-type Activities:					
Other Postemployment Benefits	$ 113.0	$ 45.4	$ (12.5)	$ 145.9	$ -
Compensated Absences	14.4	2.7	(0.3)	16.8	6.8
Claims and Judgments (Notes 13 and 17)	6.0	-	(3.0)	3.0	-
Pollution Remediation Obligations	1.8	3.6	-	5.4	0.8
Liabilities Payable from Restricted Assets	9.9	4.8	(3.0)	11.7	2.9
Bonds Payable:					
General Obligation Bonds	0.8		(0.4)	0.4	0.2
Revenue Bonds	1,206.8	207.0	(326.1)	1,087.7	80.5
Bond issue Premium, Net of Accumulated Amortization	37.4	42.2	(13.8)	65.8	12.7
Business-type Activities Long-term Liabilities Total:	$ 1,390.1	$ 305.7	$ (359.1)	$ 1,336.7	$ 103.9

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, 2012 for these entities amounted to $861.0 million and $688.4 million, respectively.

NOTE 12 CAPITAL ASSETS

(a) Primary Government

Capital asset activities for the fiscal year ended June 30, 2012 were as follows:

Capital Assets
(Expressed in Thousands)

Governmental Activities	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital Assets, Not Being Depreciated				
Land	$ 440,129	$ 9,177	$ (1,494)	$ 447,812
Easements	274,871	16,970	(736)	291,105
Construction-In-Progress	201,020	167,037	(123,274)	244,783
Total Capital Assets, Not Being Depreciated	916,020	193,184	(125,504)	983,700
Capital Assets, Being Depreciated				
Vehicles	75,733	6,720	(2,750)	79,703
Buildings	3,405,749	109,260	(483)	3,514,526
Equipment	90,564	10,106	(4,425)	96,245
Land Improvements	203,860	14,085	(422)	217,523
Computer Software	58,171	-	-	58,171
Total Capital Assets Being Depreciated	3,834,077	140,171	(8,080)	3,966,168
Less Accumulated Depreciation For:				
Vehicles	(60,594)	(4,925)	2,620	(62,899)
Buildings	(1,022,653)	(75,147)	130	(1,097,670)
Equipment	(69,008)	(4,508)	1,740	(71,776)
Land Improvements	(56,204)	(5,715)	-	(61,919)
Computer Software	(13,623)	(11,078)	-	(24,701)
Total Accumulated Depreciation	(1,222,082)	(101,373)	4,490	(1,318,965)
Total Capital Assets, Being Ddepreciated, Net	2,611,995	38,798	(3,590)	2,647,203
Governmental Activities Capital Assets, Net	$ 3,528,015	$ 231,982	$ (129,094)	$ 3,630,903

Capital Assets
(Expressed in Thousands)

Business-type Activities Lottery	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital Assets, Being Depreciated				
Computer Euipment & Software	$ 1,395	$ -	$ -	$ 1,395
Total Capital Assets Being Depreciated	1,395	-	-	1,395
Less Accumulated Depreciation	(1,394)	(1)	-	(1,395)
Total Capital Assets, Being Depreciated, Net	$ 1	$ (1)	$ -	$ -

Capital Assets
(Expressed in Thousands)

Business-type Activities DelDOT	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital Assets, Not Being Depreciated				
Land	$ 276,761	$ -	$ -	$ 276,761
Infrastructure	3,481,075	83,272	-	3,564,347
Construction In Progress	-	2,487	-	2,487
Total Capital Assets, Not Being Depreciated	3,757,836	85,759	-	3,843,595
Capital Assets, Being Depreciated				
Buildings & Improvements	98,057	6,917	(138)	104,836
Furniture & Equipment	239,415	22,525	(7,433)	254,507
Total Capital Assets, Being Depreciated	337,472	29,442	(7,571)	359,343
Less Accumulated Depreciation For:				
Buildings & Improvements	(28,028)	(3,199)	115	(31,112)
Furniture & Equipment	(123,647)	(19,828)	6,501	(136,974)
Total Accumulated Depreciation	(151,675)	(23,027)	6,616	(168,086)
Total Capital Assets, Being Depreciated, Net	185,797	6,415	(955)	191,257
Total Capital Assets	$ 3,943,633	$ 92,174	$ (955)	$ 4,034,852
Business-type Activities Capital Assets, Net	$ 3,943,634	$ 92,173	$ (955)	$ 4,034,852

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

Depreciation Expense
(Expressed in Thousands)

Governmental Activities:		
General Government	$	23,250
Health and Children's Services		2,367
Judicial and Public Safety		13,148
Natural Resources and Environmental Control		3,211
Labor		69
Education		59,328
Total Depreciation Expense - Governmental Activities	$	101,373
Business-Type Activities:		
DelDOT	$	23,027
Lottery		1
Total Depreciation Expense - Business-type Activities	$	23,028

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, 2012, for workers' compensation, automobile accident and health-care claim liabilities is $198.9 million. The claim liabilities relating to health-care totaling $43.5 million have been recorded as accrued liabilities in governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $155.4 million has been recorded in governmental activities as claims and judgments. The current portion of these claims totals $34.8 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2012 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2012 and 2011 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
2011	$ 162,590	$ 586,537	$ (572,198)	$ 176,929
2012	$ 176,929	$ 639,514	$ (617,548)	$ 198,895

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 $9.0 million of claim liabilities as Insurance Loss Reserve. Of this amount, $2.9 million has been recorded as current.

NOTE 14 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

On July 1, 2007, the Delaware OPEB Fund Trust (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, 2012:

Retirees and Beneficiaries Receiving Benefits	$ 19,530
Terminated Plan Members Entitled to But Not Yet Receiving the Benefits	2,301
Active Eligible Plan Members	36,154
Total	$ 57,985

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, 2012, 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 07/01/1991):

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 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 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 2012, the State contribution in relation to the annual required contribution (ARC) totaled $186.1 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 $6.5 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 actuarially determined in accordance with GAAP. 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 for fiscal year 2012 and the preceding fiscal year, 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, 2010	$ 986.9	$ 906.1	$ 80.8
Annual Required Contribution	553.4	506.6	46.8
Adjustment to Annual Required Contribution	(39.7)	(36.4)	(3.3)
Subtotal	1,500.6	1,376.3	124.3
Employer Contributions	(183.5)	(172.2)	(11.3)
Net OPEB Obligation at June 30, 2011	$ 1,317.1	$ 1,204.1	$ 113.0

	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

* 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 year 2012 and preceding fiscal year are as follows (dollar amounts in millions):

Ended June 30	OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
2010	$ 480.0	36%	$ 956.5
2011	488.1	37%	1,272.0
2012	495.0	38%	1,581.5

Funded Status and Funding Progress

As of June 30, 2012, the plan was 2.8% funded. The actuarial accrued liability for benefits was $5,805.0 million, and the actuarial value of assets was $163.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $5,642.0 million for the primary government. The covered payroll (annual payroll of active employees covered by the plan) was $1,885.0 million, and the ratio of the UAAL to the covered payroll was 299%.

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 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. This schedule will be expanded in future years to provide multi-year trend data.

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, 2012, actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market rates. 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. Each participant must contribute $0.23 per month per $1,000 of coverage to receive the benefit.

The numbers of participants are 785 active employees and 97 retirees as of June 30, 2012, 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 were $1.2 million for the fiscal year ended June 30, 2012

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 actuarially determined in accordance with GAAP. 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	$	17,074
Interest on Net OPEB Obligation		1,799
Adjustment to Annual Required Contribution		(1,799)
Annual OPEB Cost (Expense)		17,074
Contributions Made		(1,168)
Increase in Net OPEB Obligation		15,906
Net OPEB Obligation - Beginning of Year		45,115
Net OPEB Obligation - End of Year	$	61,021

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
2010	$ 11,810	20.02%	$ 30,386
2011	15,772	6.61%	45,115
2012	17,074	6.84%	61,021

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the Plan was 1.3% funded. The actuarial accrued liability was $125.9 million and the actuarial value of the assets was $1.6 million, resulting in an unfunded actuarial accrued liability of $124.2 million. The covered payroll (annual payroll of active employees covered by the plan) was $31.9 million and the ratio of the UAAL to the covered payroll was 389.7%.

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, 2011 actuarial valuation, the projected unit credit method was used with linear proration to assumed benefit commencement. The actuarial assumptions included a 4.0% investment rate of return, 4.0% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of

8.0% initially, incrementally down to 6.9% after 10 years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payrolls over a 30-year closed amortization period.

NOTE 15 PENSIONS

Primary Government

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
- 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 its 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 assets and statement of changes in net assets. 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, 2012, 8.4 million was transferred to the appropriate plans in DPERS.

As of June 30, 2012, recently granted post-retirement increases have outstanding liabilities totaling 132.7 million, which will be funded by the State and transferred to the appropriate plans over the next six fiscal years as follows:

Fiscal Year		(Expressed in Thousands)
2013	$	26,585
2014		27,536
2015		28,521
2016		29,542
2017		20,536
Total	$	132,720

The Board adopts actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal year 2012 was 0.50% of covered payroll. Funding for fiscal year 2013 will be 1.49%.

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, 2012, 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.

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:	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 at any age.

Disability Benefits: 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.

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.
- Member - 3% 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:

Closed - 3% of final average compensation multiplied by years of credited service, subject to maximum and minimum limitations.

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:

Closed - Age 65 with 12 years of credited service, or any age with 24 years of credited service.

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.

Service Benefits:	50% of monthly salary.
Vested/Retirement:	20 years of credited service or age 55.
Disability Benefits:	Duty - 75% of monthly salary. Non-Duty – Same as Service Benefits.
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.
- Member - 5% of salary with 20 years or less of credited service;
  2% of salary with over 20 years credited service.

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	147,464	N/A	24,678	8,309	2,674
Actuarial Valuation Date	6/30/2012	6/30/2012	6/30/2012	6/30/2012	6/30/2012
Actuarial Cost Method	Entry Age Normal	N/A	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss	N/A	Level Dollar Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	20 years (1)	N/A	25 years	20 years (1)	9.64 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	814	9,265	1,362	1,896
Actuarial Valuation Date	6/30/2012	6/30/2012	6/30/2012	6/30/2012
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Open	Level Percent Open	Level Dollar Closed
Remaining Amortization Period	15 years	10 years	10 years	16 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'	6/30/2012	$ 147,464	$ 147,464	100.00%	$ -
	6/30/2011	128,019	128,019	100.00%	-
	6/30/2010	101,457	101,457	100.00%	-
County & Municpal Police and Firefighters'	6/30/2012	$ 9,265	$ 9,265	100.00%	$ -
	6/30/2011	7,569	7,569	100.00%	-
	6/30/2010	7,307	7,307	100.00%	-
County & Municpal Other Employees'	6/30/2012	$ 1,362	$ 1,362	100.00%	$ -
	6/30/2011	1,186	1,186	100.00%	-
	6/30/2010	1,276	1,276	100.00%	-
Delaware Volunteer Firemen's	6/30/2012	$ 1,311	$ 1,896	69.14%	$ 3,833
	6/30/2011	1,220	1,762	69.24%	3,352
	6/30/2010	1,191	1,703	69.94%	2,884
Judiciary	6/30/2012	$ 2,674	$ 2,674	100.00%	$ -
	6/30/2011	2,557	2,557	100.00%	-
	6/30/2010	2,473	2,473	100.00%	-
New State Police	6/30/2012	$ 8,309	$ 8,309	100.00%	$ -
	6/30/2011	7,810	7,810	100.00%	-
	6/30/2010	6,562	6,562	100.00%	-
Closed State Police	6/30/2012	$ 23,064	$ 24,678	93.46%	$ 117,997
	6/30/2011	23,367	26,638	87.72%	117,768
	6/30/2010	23,367	27,214	85.86%	115,569
Diamond State Port Corporation	6/30/2012	$ 814	$ 814	100.00%	$ -
	6/30/2011	704	704	100.00%	-
	6/30/2010	594	594	100.00%	-

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, as well as information concerning funding policies and annual pension costs may be found in the Required Supplementary Information on pages 121 - 123

Annual pension cost is equal to the respective plans required and actual contributions.

Three-Year Trend Information
(Expressed in Dollars)

	Plan Year Ended	Contribution Made	Annual Pension Cost (APC)	Percent Of APC Contributed	Net Pension Asset
DTC Pension Plan	6/30/2012	$ 996,777	$ 996,827	99.99%	$ (109,418)
	6/30/2011	1,111,468	1,111,548	99.99%	(109,368)
	6/30/2010	1,033,487	1,033,998	99.95%	(109,288)
Contributory Pension	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
	12/31/2009	1,063,098	674,249	157.67%	2,167,594

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

Plan	DTC Pension Plan	Contributory Pension Plan
Contribution Rates:		
Employer	Actuarially Determined	5.00%
Participants	N/A	5.00%
Annual Pension Cost	$ 996,827	$ 658,363
Contributions Made	$ 996,777	$ 1,073,948
Actuarial Valuation Date	07/01/11	01/01/12
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

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, 2012, 2011, and 2010 are as follows:

Net Pension Obligation (NPO)
(Expressed in Thousands)

	Fiscal Year Ended June 30, 2012	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010
Annual Required Contribution	$ 24,678	$ 26,638	$ 27,214
Interest on Net Pension Obligation	8,833	9,246	9,012
Adjustment to Annual Required Contribution	- (10,218)	(10,318)	(9,942)
Annual Pension Cost	23,293	25,566	26,284
Less Contributions Made	(23,064)	(23,367)	(23,367)
Increase in Net Pension	229	2,199	2,917
Net Pension Obligation, Beginning of Year	117,768	115,569	112,652
Net Pension Obligation, End of Year	$ 117,997	$ 117,768	$ 115,569

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, 2012, is as follows (expressed in thousands):

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
Nonspendable					
Inventories	$ 8,121	$ -	$ -	$ -	$ 8,121
Advances and Prepaid Items	-	-	-	-	-
Total Nonspendable	8,121	-	-	-	8,121
Restricted:					
Health and Children's Services	5,668	15,630	-	-	21,298
Judicial and Public Safety	9,974	-	-	-	9,974
Natural Resources and Environmental Control	61,078	-	-	-	61,078
Agriculture	160	-	-	-	160
Labor	2,113	-	-	-	2,113
Education	4,390	-	306,397	110,302	421,089
Economic Development	501	-	-	-	501
Other	3,623	-	-	-	3,623
Total Restricted	$ 87,507	$ 15,630	$ 306,397	$ 110,302	$ 519,836
Committed					-
Health and Children's Services	40,763	-	-	-	40,763
Judicial and public safety	6,338	-	-	-	6,338
Natural Resources and Environmental Control	30,937	-	-	-	30,937
Agriculture	9,101	-	-	-	9,101
Labor	10,481	-	-	-	10,481
Education	15,848	-	-	-	15,848
Economic Development	97,052	-	-	-	97,052
Other	26,376	-	-	-	26,376
Total Committed	$ 236,896	$ -	$ -	$ -	$ 236,896
Assigned					
Health and Children's Services	6,259	-	-	-	6,259
Judicial and Public Safetey	4,030	-	-	-	4,030
Natural Resources and Environmental Control	6,894	-	-	-	6,894
Agriculture	13,513	-	-	-	13,513
Educatiion	62,719	-	-	-	62,719
Economic Development	118	-	-	-	118
Other	6,950	-	-	-	6,950
Total Assigned	$ 100,483	$ -	$ -	$ -	$ 100,483
Unassigned	$ 963,986	$ -	$ -	$ -	$ 963,986
Total Fund Balance	$ 1,396,993	$ 15,630	$ 306,397	$ 110,302	$ 1,829,322

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 $306.4 million at June 30, 2012.

NOTE 17 Affiliated Organizations

State Lottery

Multi-State Lottery Association

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. The MUSL also operates the Hot Lotto game, in which the Lottery began participating during fiscal year 2008. 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 MUSL as of June 30, 2012, was $2.4 million. This amount is also reported by the Lottery as a liability on its 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 $332.0 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 2012 are as follows: general fund $199.1 million, federal funds are $77.6 million, local school funds are $14.3 million and capital project funds are $117.1 million.

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, 2012, DSPC had $13.9 million in cash and investments committed to capital projects.

Riverfront Development Corporation (RDC)

RDC has an outstanding letter of credit in the amount of $6 million which expires June 2013, with automatic one-year renewals. The letter of credit is security for a loan issued by US Bank to WRO, LLC, for the purpose of developing a hotel adjacent to the Chase Center. The letter of credit is secured by restricted cash of $2 million, which is being held by PNC Bank. The letter of credit is also secured by a second mortgage on the Chase Center, as well as a $1 million contribution from the City of Wilmington, which is also being held in a restricted account by PNC Bank. If WRO, LLC were to default on its obligation to US Bank, then the letter of credit could be drawn upon. However, WRO, LLC has indemnified RDC against any potential losses which may arise should the letter of credit be drawn upon.

In June, 2012, RDC purchased a parcel of land which it then sold to Penn Cinema Riverfront, LLC. The deed is being held in escrow pending the completion of environmental remediation by RDC. The cost of the remediation is expected to be approximately $1 million, for which RDC will pay and then be reimbursed by the State.

RDC is a party to legal proceedings which normally occur in governmental operations. In the opinion of management, these legal proceeding are not likely to have a material adverse effect on the accompanying financial statements and accordingly, no loss provision has been recorded.

NOTE 19 CONTINGENCIES

Primary Government

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 $9.3 million. The State recognized $3.1 million in governmental activities as claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2012. 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, 2012 would have a material effect on its financial position or the results of operations.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* provides guidance for state and local governments in estimating and reporting the potential costs of pollution remediation. While GASB Statement No. 49 does not require the State to search for pollution, it does require the State to reasonable estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the State is compelled to take action;
- The State is in violation of a pollution related permit or license;
- The State is named or has evidence that it will be named as responsible party by a regulator;
- The State is named or has evidence that it will be named in a lawsuit to enforce a cleanup; or
- The State commences or legally obligates itself to conduct remediation activities.

Site investigation, planning and design, cleanup and site monitoring are typical 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 standard requires the State to calculate 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 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, 2012, the State had a total pollution remediation liability of $35.2 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 $.5 million at June 30, 2012) in the event that the annuity issuers default on their obligations.

In fiscal year 2013, the State of Delaware has processed and paid $13.6 million of corporate income tax refunds as of January 17, 2013. Currently there are corporate income tax refunds pending that total $62.7 million, an amount that is well in excess of the typical balance of refunds pending. The preponderance of the $62.7 million balance is attributable to a single refund claim. 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 2012, the corporate income tax refunds actually paid have ranged from a low of $20.1 million to a high of $52.9 million. The current budget projects total corporate income tax refunds of $38.6 million for fiscal year 2013. However, based on the current figures for this fiscal year, the potential exists 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 2013 may now range from approximately $20.0 million to approximately $100 million.

Component Units

DSHA has amounts received or receivable from grant agencies that are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although DSHA expects such amounts, if any, to be immaterial.

NOTE 20 SUBSEQUENT EVENTS

Component Units

Delaware State Housing Authority (DSHA)

As of September 21, 2012, the Authority had borrowed as additional $30.2 million from Federal Home Loan Bank (FHLB) Pittsburgh under an existing agreement. The additional borrowing was used for the purchase of mortgaged backed securities and will be repaid with the proceeds of a bond issue expected to occur in the near future.

Required Supplementary Information

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 certain 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, 2012, 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 2012, 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 $566.2 million budgetary general fund balance at June 30, 2012, $186.4 million is reserved for the budgetary reserve account and $256.4 million is designated as continuing and encumbered appropriations. The $123.4 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.

Budgetary Comparison Schedule-General and Special Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2012
(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	$ 1,060.4	$ 1,043.0	$ 1,040.6	$ (2.4)	$ -	$ -	$ -	$ -
Business Taxes	1,693.1	1,440.7	1,462.0	21.3	-	-	-	-
Other Taxes	178.6	170.5	164.0	(6.5)	-	-	-	-
License, Permits, Fines and Fees	336.6	330.4	331.4	1.0	-	-	-	-
Rentals and Sales	-	-	-	-	-	-	-	-
Interest Earnings	9.0	10.6	10.6	-	-	-	-	-
Lottery Sales	276.9	268.3	269.0	0.7				
Grants	-	-	-	-	-	-	-	-
Other Non-tax Revenue	70.0	48.3	81.6	33.3	1,029.6	1,029.6	937.9	(91.7)
Total Revenue	3,624.6	3,311.8	3,359.2	47.4	1,029.6	1,029.6	937.9	(91.7)
Expenditures								
Legislative	14.9	14.9	13.1	1.8	-	-	-	-
Judicial	91.3	90.0	95.3	(5.3)	9.2	9.2	7.9	1.3
Executive	228.2	284.0	144.7	139.3	118.5	118.5	40.6	77.9
Department of Technology & Information	34.5	37.0	35.5	1.5	29.6	29.6	24.3	5.3
Other Elective Offices	150.8	171.5	168.7	2.8	99.3	99.3	90.4	8.9
Legal	45.5	47.6	49.6	(2.0)	9.6	9.6	7.7	1.9
Department of State	27.6	28.0	28.0	-	41.2	41.2	48.1	(6.9)
Department of Finance	15.2	33.0	19.0	14.0	99.6	99.6	82.6	17.0
Department of Health & Social Services	998.0	1,021.7	1,055.1	(33.4)	105.8	105.8	85.1	20.7
Department of Services to Children, Youth and Their Families	130.7	130.9	134.5	(3.6)	19.3	19.3	18.8	0.5
Department of Corrections	254.7	257.9	262.3	(4.4)	4.4	4.4	3.9	0.5
Department of Natural Resources and Environmental Control	34.9	44.9	41.8	3.1	96.7	96.7	46.3	50.4
Department of Safety & Homeland Security	130.9	135.2	137.5	(2.3)	13.8	13.8	13.0	0.8
Department of Transportation	-	-	-	-	354.0	354.0	341.5	12.5
Department of Labor	7.3	7.3	7.2	0.1	13.5	13.5	12.0	1.5
Department of Agriculture	7.8	7.8	7.9	(0.1)	7.9	7.9	5.3	2.6
Department of Elections	3.9	3.9	4.3	(0.4)	-	-	0.4	(0.4)
Fire Prevention Commission	4.9	5.0	5.0	-	2.5	2.5	2.0	0.5
Delaware National Guard	4.4	4.5	4.2	0.3	-	-	-	-
Higher Education	213.2	227.7	222.7	5.0	-	-	1.1	(1.1)
Department of Education	1,109.7	1,121.2	1,155.8	(34.6)	4.7	4.7	3.9	0.8
Total expenditures	$ 3,508.4	$ 3,674.0	$ 3,592.2	$ 81.8	$ 1,029.6	$ 1,029.6	$ 834.9	$ 194.7
Excess (Deficiency) of Revenue over Expenditures	116.2	(362.2)	(233.0)	(34.4)	-	-	103.0	103.0
Budgetary Fund Balance, Beginning of Year	799.2	799.2	799.2	-	527.7	527.7	527.7	-
Budgetary Fund Balance, End of Year	$ 915.4	$ 437.0	$ 566.2	$ (34.4)	$ 527.7	$ 527.7	$ 630.7	$ 103.0

Budgetary Fund Balance

Designated:	
Budget Reserve Account	$ 186.4
Continuing and Encumbered Appropriations	256.4
Undesignated	123.4
Total	$ 566.2

(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 Reconiliciation
For the Fiscal Year Ended June 30, 2012
(Expressed in Millions)

Total Budget Basis General and Special Fund Revenue for Fiscal Year 2012		$ 4,297.1
Adjustments:		
The financial reporting revenues do not include revenues that are part of the general budgetary revenues	(560.1)	
Non-budgetary General Revenues Reclassified to General Fund Revenue	815.4	
To Adjust Revenues, Other Financing Sources and Related Receivables and Deferred Revenue	(717.6)	
Total General Fund Revenues for Fiscal Year 2012		$ 3,834.8
Federal Fund Revenue	1,504.9	
Local School Fund Revenue	508.3	
		2,013.2
Total GAAP Basis Governmental Funds Revenue for Fiscal Year 2012		$ 5,848.0

Budget vs GAAP Expenditures Reconiliciation
For the Fiscal Year Ended June 30, 2012
(Expressed in Millions)

Total Budget Basis General and Special Fund Expenditures for Fiscal Year 2012		$ 4,427.1
Adjustments:		
The financial reporting expenditures do not include expenditures that are part of the general budgetary revenues	(483.7)	
Non-budgetary General Expenditures Reclassified to General Fund Expenditures	686.9	
To Adjust Expenditures, Other Financing Uses and Related Accounts Payable, Accrued Liabilities	(372.2)	
Total General Fund Expenditures for Fiscal Year 2012		$ 4,258.1
Federal Fund Expenditures	1,471.3	
Local School Fund Expenditures	496.0	
Capital Projects Fund Expenditures	187.7	
		2,155.0
Total GAAP Basis Governmental Funds Expenditures for Fiscal Year 2012		$ 6,413.1

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 approximately 4,378 centerline miles and approximately 1,591 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, 2012 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

	BCR Condition Rating	2012 Number	2012 Percent	2010 Number	2010 Percent	2009 Number	2009 Percent
		Calendar Year Ended December 31					
Good	6-9	1,149	72.3	1,137	72.8	1,144	73.5
Fair	5	322	20.2	313	20.0	295	19
Poor	0-4	120	7.6	112	7.2	117	7.5
Totals		1,591	100	1,562	100	1,556	100

Deck Rating Numbers and Percentages for Bridges

	OPC Condition Rating	2012 Square Feet	2012 Percent	2010 Square Feet	2010 Percent	2009 Square Feet	2009 Percent
		Calendar Year Ended December 31					
Good	6-9	6,476,158	90.3	6,685,282	91.1	6,800,531	92.8
Fair	5	687,461	9.6	651,712	8.8	510,306	6.9
Poor	0-4	10,720	0.1	4,994	0.1	19,558	0.3
Totals		7,174,339	100	7,341,988	100	7,330,395	100

Center-Line Mile Numbers and Percentages for Road Pavement

	OPC Condition Rating	2010 Center-Line Mile	2010 Percent	2009 Center-Line Mile	2009 Percent	2008 Center-Line Mile	2008 Percent
		Calendar Year Ended December 31					
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 2012	2011	2010	2009	2008
Estimated	$ 341,004	$ 426,621	$ 282,008	$ 208,764	$ 197,301
Actual	$ 294,522	$ 250,492	$ 333,307	$ 308,732	$ 271,333

* 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 Staus 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 Liabilitites (2) - ((1)	(4) Funded Ratio (1) / (2)	(5) Annual Coverd payroll	(6) UAAL/ (Excess) as % of Covered payroll (3) / (5)
State Employees*	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%
	6/30/2010	6,808,957	7,096,326	287,369	96.0%	1,740,622	16.5%
Special	6/30/2012	$ 366	$ 264	$ (102)	138.6%	N/A	N/A
	6/30/2011	406	287	(119)	141.5%	N/A	N/A
	6/30/2010	457	333	(124)	137.2%	N/A	N/A
Closed State Police +	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%
	6/30/2010	1,440	298,493	297,053	0.5%	339	87626.3%
New State Police	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%
	6/30/2010	245,303	260,258	14,955	94.3%	49,896	30.0%
Judiciary	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%
	6/30/2010	51,550	60,104	8,554	85.8%	9,798	87.3%
Diamond State Port Corporation	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%
	6/30/2010	15,418	18,354	2,936	84.0%	11,224	26.2%
County and Municipal Police and Firefighters	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%
	6/30/2010	135,684	141,430	5,746	95.9%	56,917	10.1%
County and Municipal Other Employees	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%
	6/30/2010	17,596	19,827	2,231	88.7%	20,591	10.8%
						Active Member++	Cost per Active Member++
Volunteer Firemen	6/30/2012	$ 14,972	$ 30,149	$ 15,177	49.7%	$ 4,871	$ 3,116
	6/30/2011	14,379	29,515	15,136	48.7%	4,933	3,068
	6/30/2010	13,663	27,382	13,719	49.9%	4,898	2,801

* 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 ffive years

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

++ Not expressd in thousands

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 of Assets over AAL (a - b)	(d) Funded Ratio (a/b)	(e) Covered Payroll	(f) UAAL as a % of Covered Payroll (3) / (5)
DTC Pension Plan	7/1/2011	$ 15,121,491	$ 16,236,313	$ (1,114,822)	93.1%	$ 11,253,210	(9.9%)
	7/1/2010	12,329,167	12,841,594	(512,427)	96.0%	11,464,713	(4.5%)
	7/1/2009	10,282,778	10,797,306	(514,528)	95.2%	11,624,462	(4.4%)
Contribution Plan	1/1/2012	$ 30,863,722	$ 32,171,013	$ (1,307,291)	95.9%	$ 22,985,063	(5.7%)
	1/1/2011	29,920,228	29,601,647	318,581	101.1%	22,847,401	1.4%
	1/1/2010	26,246,390	27,215,318	$ (968,928)	96.4%	$ 22,675,263	(4.3%)

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) Accrued Liabilities (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3) / (5)
7/1/2012	$ 163	$ 5,805	$ 5,641	2.8%	$ 1,885	299.3%
7/1/2011	144	6,769	6,625	2.1%	1,787	370.7%
7/1/2010	104	5,884	5,780	1.8%	1,798	321.5%

Valuation Date	July 1, 2012
Acturial Cost method	Entry Age Normal
Amortization Method	Level Percent Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Acturial Assumption	
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 net OPEB obligations for the fiscal years as follows:

Schedule of Employer Contributions
(Expressed in Millions)

Fiscal Year Ended Jun 30	Annual Required Contribution	Percentage of Annual OPEB Costs Contributed
2012	$ 495.0	38%
2011	488.1	37%
2010	480.0	36%

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 Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Accrued Liability (AAL)	Excess (Deficit) of Assets Over AL (1 - 2)	Funded Ratio (1) / (2)	(5) Covered Payroll	(4) Excess (Deficit) As a percentage of Covered Payroll (1/2)/3
7/1/2011	$ 1,605,000	$ 125,866,000	$ (124,261,000)	1.3%	$ 31,883,191	(389.7%)
7/1/2010	1,500,000	111,122,000	(109,622,000)	1.3%	31,293,725	(350.3%)
7/1/2009	-	82,631,000	(82,631,000)	-	31,420,280	(263.0%)

STATE OF DELAWARE

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

Year ended June 30, 2012

(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 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, 2012, which collectively comprise the State's basic financial statements and have issued our report thereon dated January 18, 2013. Our audit report was modified to include a reference to 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. Other auditors audited the financial statements of the State's 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

Management of the State is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and that are described as items 2012-01 and 2012-02 in the accompanying schedule of findings and questioned costs. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We noted certain matters that we reported to the State's management in a separate letter dated February 26, 2013.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Secretary of Finance, Office of the Governor, Attorney General, Comptroller General, Office of Management and Budget, and the U.S. Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is public record and its distribution is not limited.

KPMG LLP

January 18, 2013

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards

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

Compliance

We have audited the State of Delaware's (the State's) compliance of the 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, 2012. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

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, Delaware Technical and Community College (DTCC) Foundation, and the Charter Schools, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2012. 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, Delaware Technical and Community College (DTCC) Foundation, 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.

Except as discussed in the following paragraph, 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. Our audit does not provide a legal determination of the State's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the State with certain major programs regarding cash management requirements, nor were we able to satisfy ourselves as to the State's compliance with those requirements by other auditing procedures. The specific instances of program compliance requirements are identified and described in the accompanying schedule of findings and questioned costs as follows:

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement(s)
Department of Education	12-4	10.558	Child and Adult Care Food Program	Cash Management
		10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	
		84.010, S-84.389	Title I Grants to Local Educational Agencies	
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	
		84.367	Improving Teacher Quality State Grants	
		S-84.394	State Fiscal Stabilization Fund Cluster	
		S-84.395	State Fiscal Stabilization Fund, Race-to-the-Top Incentive Grants, Recovery Act	
		S-84.410	Education Jobs Fund	
Department of Health and Social Services	12-11	10.551, 10.561	Supplemental Nutrition Assistance Program Cluster	Cash Management
		93.558, S-93.714	Temporary Assistance for Needy Families	
		93.575, 93.596	Child Care Cluster	
		93.767	State Children’s Health Insurance Program	
		93.775, 93.777, S-93.777, 93.778	Medicaid Cluster	
		93.563	Child Support Enforcement	
		66.468, S-66.468	Capitalization Grants for Drinking Water State Revolving Funds	
		93.568	Low-Income Home Energy Assistance Program	
		93.268, S-93.712	Immunization Cluster	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement(s)
Department of Health and Social Services	12-22	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Cash Management

The State did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to the identified major federal programs. The specific instances of noncompliance are identified and described in the accompanying schedule of findings and questioned costs as follows:

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement(s)
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	12-2	84.010, S-84.389	Title I Grants to Local Educational Agencies	Allowable Costs (Effort Reporting)
		84.027, 84.173, S-84.391, 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	12-9	84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	Level of Effort (Maintenance of Effort)
Department of Health and Social Services – Division of Social Services	12-19	93.558, S-93.714	Temporary Assistance for Needy Families	Reporting
Department of Health and Social Services – Division of State Service Centers	12-26	93.568	Low-Income Home Energy Assistance Program	Reporting, Period of Availability

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement(s)
Department of Labor – Division of Employment & Training	12-34	17.258, 17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Subrecipient Monitoring, Special Tests and Provisions for Awards with ARRA Funding (Subrecipient Monitoring)

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State's compliance with the requirements described in the second preceding paragraph, and except for the noncompliance described in the preceding paragraph, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, 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 findings: 12-1, 12-3, 12-6, 12-7, 12-8, 12-10, 12-12, 12-14, 12-16, 12-17, 12-18, 12-20, 12-21, 12-23, 12-27, 12-28, 12-29, 12-31, 12-33, 12-35, 12-37, 12-39 and 12-41.

Internal Control over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be 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 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 findings: 12-2, 12-9, 12-13, 12-18, 12-19, 12-22, 12-26, and 12-34 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or 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 findings: 12-1, 12-3, 12-4, 12-5, 12-6, 12-7, 12-8, 12-10, 12-11, 12-12, 12-14, 12-15, 12-16, 12-17, 12-20, 12-21, 12-23, 12-24, 12-25, 12-27, 12-28, 12-29, 12-30, 12-31, 12-32, 12-33, 12-35, 12-36, 12-37, 12-38, 12-39, 12-40, and 12-41 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

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, 2012, and have issued our report thereon dated January 18, 2013, which includes a reference to other auditors. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the State's basic financial statements. We have not performed any procedures with respect to the audited financial statements subsequent to January 18, 2013. 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 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 expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

This report is intended solely for the information and use of the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget and the Department of Finance, management of the State of Delaware, the United States Department of Health and Human Services Office of the Inspector General for Audit, and other federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is public record and its distribution is not limited.

KPMG LLP

March 25, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

CFDA NO.		GRANT NAME		EXPENDITURES
		U.S. Department of Agriculture		
10.025		Plant and Animal Disease, Pest Control, and Animal Care	$	402,034
10.028		Wildlife Services		8,157
10.069		Conservation Reserve Program		35,102
10.163		Market Protection and Promotion		23,063
10.169		Specialty Crop Block Grant Program		27,525
10.170		Specialty Crop Block Grant Program-Farm Bill		129,475
10.171		Organic Certification Cost Share Programs		841
10.458		Crop Insurance Education in Targeted States		207,289
10.475		Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		451,175
10.550		Food Distribution		2,809,374
		SNAP Cluster		
10.551		Supplemental Nutrition Assistance Program (SNAP)	223,046,541	
10.561		State Administrative Matching Grants for the Supplemental Nutritional Assistance Program	14,259,395	
		Total SNAP Cluster		**237,305,936**
		Child Nutrition Cluster		
10.553		School Breakfast Program	7,556,456	
10.555		National School Lunch Program	29,938,133	
10.556		Special Milk Program for Children	34,027	
10.559		Summer Food Service Program for Children	2,213,308	
		Total Child Nutrition Cluster		**39,741,924**
10.557		Special Supplemental Nutrition Program for Women, Infants & Children		11,016,952
10.558		Child and Adult Care Food Program		15,057,912
10.560		State Administrative Expenses for Child Nutrition		894,968
		Emergency Food Assistance Cluster		
10.568		Emergency Food Assistance Program (Administrative Costs)	121,828	
10.569		Emergency Food Assistance Program (Food Commodities)	1,138,530	
		Total Emergency Food Assistance Cluster		**1,260,358**
10.565		Commodity Supplemental Food Program		208,320
10.574		Team Nutrition Grants		81,700
10.578	**S**	ARRA-WIC Grants to States (WGS)		855,462
10.579		Child Nutrition Discretionary Grants Limited Availability		70,861
10.579	**S**	ARRA-Child Nutrition Discretionary Grants Limited Availability		57,978
10.582		Fresh Fruit and Vegetable Program		1,798,902
10.664		Cooperative Forestry Assistance		154,236
10.675		Urban and Community Forestry Program		275,671
10.676		Forest Legacy Program		3,215,372
10.678		Forest Stewardship Program		104,887
10.680		Forest Health Protection		129,599
10.688	**S**	ARRA-Wildlife Fire Management		39,217
10.912		Environmental Quality Incentives Program		92,461
10.913		Farmland Protection Program		4,461,071
		Total U.S. Department of Agriculture		**320,917,822**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

CFDA NO.		GRANT NAME		EXPENDITURES
		U.S. Department of Commerce		
		Public Works and Economic Development Cluster		
11.300		Investments for Public Works and Economic Development Facilities	77,583	
11.300	S	ARRA-Investments for Public Works and Economic Development Facilities	2,070	
		Subtotal CFDA #11.300	79,653	
11.307		Economic Development Special Economic Development and Adjustment Assistance Program	1,763,800	
		Total Public Works and Economic Development Cluster		**1,843,453**
11.313		Trade Adjustment Assistance for Firms		71,250
11.419		Coastal Zone Management Administration Awards		1,354,615
11.420		Coastal Zone Management Estuarine Research Reserves		607,319
11.439		Marine Mammal Data Program		10,000
11.472		Unallied Science Program		561,851
11.474		Atlantic Coastal Fisheries Cooperative Management Act		128,671
11.555		Public Safety Interoperable Communications Grant Program		2,564,653
11.557	S	ARRA-Broadband Technology Opportunities Program		657,242
11.558	S	ARRA-State Broadband Data and Development Grant Program		235,003
		Total U.S. Department of Commerce		**8,034,057**
		U.S. Department of Defense		
12.000		Issue of Department Of Defense Excess Equipment		165,508
12.113		State Memorandum of Agreement Program for the Reimbursement of Technical Services		25,260
12.401		National Guard Military Operations and Maintenance (O&M) Projects		12,594,117
		Total U.S. Department of Defense		**12,784,885**
		U.S. Department of Housing and Urban Development		
14.235		Supportive Housing Program		592,051
14.251		Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants		24,050
14.401		Fair Housing Assistance Program		153,229
		Total U.S. Department of Housing and Urban Development		**769,330**
		U.S. Department of the Interior		
		Fish and Wildlife Cluster		
15.605		Sport Fish Restoration	6,045,256	
15.611		Wildlife Restoration	2,974,065	
		Total Fish and Wildlife Cluster		**9,019,321**
15.608		Fish and Wildlife Management Assistance		1,244
15.614		Coastal Wetlands Planning, Protection and Restoration Act		819,455
15.615		Cooperative Endangered Species Conservation Fund		28,146
15.633		Landowner Incentive		302,227
15.634		State Wildlife Grants		695,964
15.657		Endangered Species Conservation Recovery		7,714
15.904		Historic Preservation Fund Grants-In-Aid		539,453
15.916		Outdoor Recreation, Acquisition, Development and Planning		716,374
		Total U.S. Department of the Interior		**12,129,898**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

CFDA NO.		GRANT NAME		EXPENDITURES
		U.S. Department of Justice		
16.017		Sexual Assault Services Program		197,690
16.202		Prisoner Reentry Initiative Demonstration (Offender Reentry)		33,423
16.203		Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)		52,663
16.523		Juvenile Accountability Incentive Block Grants		307,916
16.540		Juvenile Justice and Delinquency Prevention - Allocation to States		432,993
16.541		Part E Developing, Testing, and Demonstrating Promising New Programs		59,220
16.543		Missing Childrens Assistance		183,041
16.548		Title V - Delinquency Prevention Program		144,897
16.550		State Justice Statistics Program for Statistical Analysis Centers		57,058
16.554		National Criminal History Improvement Program		83,907
16.575		Crime Victim Assistance		1,576,380
16.576		Crime Victim Compensation		847,528
16.580		Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		11,001
16.582		Crime Victim Assistance/Discretionary Grants		5,572
16.585		Drug Court Discretionary Grant		44,513
16.588		Violence Against Women Formula Grants	647,904	
16.588	**S**	ARRA-Violence Against Women Formula Grants	198,579	
		Subtotal CFDA #16.588		846,483
16.593		Residential Substance Abuse Treatment for State Prisoners		71,402
16.595		Community Capacity Development Office		137,895
16.606		State Criminal Alien Assistance Program (SCAAP)		187,877
16.607		Bulletproof Vest Partnership Program		91,935
16.609		Project Safe Neighborhoods		72,097
16.710		Public Safety Partnership and Community Policing Grants		1,956,748
16.726		Juvenile Mentoring Program		255,432
16.727		Enforcing Underage Drinking Laws Program		41,298
16.736	**S**	ARRA-Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault		158
		JAG Program Cluster		
16.738		Edward Byrne Memorial Justice Assistance Grant Program	1,124,004	
16.803	**S**	ARRA-Edward Byrne Memorial Justice Assistance Grant	1,953,059	
		Total JAG Program Cluster		**3,077,063**
16.740		Statewide Automated Victim Information Notification (SAVIN) Program		386,951
16.741		Forensic DNA Capacity Enhancement Program		100,108
16.742		Paul Coverdell Forensic Sciences Improvement Grant Program		103,062
16.746		Capital Case Litigation		60,534
16.748		Convicted Offender and/or Arrestee DNA Backlog Reduction Program		38,941
16.750		Support for Adam Walsh Act Implementation Grant Program		48,614
16.754		Harold Rogers Prescription Drug Monitoring Program		113,792
16.800	**S**	ARRA-Recovery Act-Internet Crimes Against Children Task Force Program		107,264
16.801	**S**	ARRA-Recovery Act-State Victim Assistance Formula Grant Program		28,482
16.812		Second Chance Act Prisoner Reentry Initiative		352,166
16.816		John R Justice Prosecutors and Defenders Incentive Act		149,747
16.Unassigned		Unassigned - Asset Forfeiture - Justice		194,324
		Total U.S. Department of Justice		**12,460,175**
		U.S. Department of Labor		
17.002		Labor Force Statistics		600,645
17.005		Compensation and Working Conditions		63,390
17.203		Labor Certification for Alien Workers		3,217

CFDA NO.		GRANT NAME	EXPENDITURES	
		Employment Services Cluster		
17.207		Employment Service / Wagner-Peyser Funded Activities	2,320,816	
17.801		Disabled Veterans' Outreach Program (DVOP)	170,793	
17.804		Local Veterans' Employment Representative Program	467,470	
		Total Employment Services Cluster		**2,959,079**
17.225		Unemployment Insurance	162,691,406	
17.225	S	ARRA-Unemployment Insurance	86,905,237	
		Total Unemployment Insurance		249,596,643
17.235		Senior Community Service Employment Program		2,172,337
17.245		Trade Adjustment Assistance		1,720,603
		Workforce Investment Act (WIA) Cluster		
17.258		WIA Adult Program	1,519,825	
17.259		WIA Youth Activities	2,166,657	
17.260		WIA Dislocated Workers	1,837,543	
17.260	S	ARRA-WIA Dislocated Workers	419,505	
17.278		WIA Dislocated Worker Formula Grants	1,987,244	
		Total WIA Cluster		**7,930,774**
17.269		Community Based Job Training Grants		108,596
17.271		Work Opportunity Tax Credit Program		186,080
17.275	S	ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors		197,650
17.277		WIA National Emergency Grants		160,810
17.282		Trade Adjustment Assistance Community College and Career Training (TAACCCT)		1,003,291
17.504		Consultation Agreements		454,654
17.505		OSHA Data Initiative		28,257
		Total U.S. Department of Labor		**267,186,026**
		U.S. Department of Transportation		
20.106		Airport Improvement Program (FAA)		256,154
20.108		Aviation Research Grants		8,545
20.218		National Motor Carrier Safety		970,845
20.232		Commercial Drivers License Program Improvement Grant		164,650
20.238		Commercial Drivers License Information System (CDLIS) Modernization Grant		201,181
20.317		Capital Assistance to States - Intercity Passenger Rail Service		63,782
		Highway Planning and Construction Cluster		
20.205		Highway Planning and Construction	173,575,853	
20.205	S	ARRA-Highway Planning and Construction	18,556,847	
		Subtotal CFDA #20.205	192,132,700	
20.219		Recreational Trails Program	39,435	
		Total Highway Planning and Construction Cluster		**192,172,135**
		Federal Transit Cluster		
20.500		Federal Transit - Capital Investment Grants	203,057	
20.507		Federal Transit Cluster	6,682,199	
20.507	S	ARRA-Federal Transit Cluster	425,462	
		Subtotal CFDA #20.507	7,107,661	
		Total Federal Transit Cluster		**7,310,718**
		Transit Services Program Cluster		
20.513		Capital Assistance Program	445,856	
20.516		Job Access Reverse Commute	394,519	
20.521		New Freedom Program	274,390	
		Total Transit Services Program Cluster		**1,114,765**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

CFDA NO.		GRANT NAME		EXPENDITURES
		Highway Safety Cluster		
20.600		State and Community Highway Safety	1,600,159	
20.601		Alcohol Impaired Driving Countermeasures Incentive Grants I	1,044,469	
20.602		Occupant Protection Incentive Grants	107,481	
20.609		Safety Belt Performance Grants	86,197	
20.610		State Traffic Safety Information System Improvement Grants	440,290	
20.612		Incentive Grant Program to Increase Motorcyclist Safety	43,305	
20.613		Child Safety and Child Booster Seats Incentive Grants	56,526	
		Total Highway Safety Cluster		**3,378,427**
20.505		Federal Transit Metropolitan Planning Grants		25,957
20.509		Formula Grants for Other Than		2,970,765
20.519		Clean Fuels - FTA & FHWA		3,965,635
20.523		Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions		1,499,871
20.607		Alcohol Open Container Requirements		2,164,716
20.700		Pipeline Safety		28,157
20.703		Interagency Hazardous Materials Public Sector Training and Planning Grants		100,789
20.721		PHMSA Pipeline Safety Program One Call Grant		9,096
20.933		National Infrastructure Investments - TIGER Discretionary Grants	12,031	
20.933	S	ARRA-National Infrastructure Investments - TIGER Discretionary Grants	151,545	
		Subtotal CFDA #20.933		163,576
20.Unassigned		Coast Guard Marine, Harbor, and Waterfront Services		827,718
		Total U.S. Department of Transportation		**217,397,482**
		Department of the Treasury		
21.Unassigned		Unassigned - Asset Forfeiture - Treasury		3,078,702
		Total Department of the Treasury		**3,078,702**
		Equal Employment Opportunity Commission		
30.001		Employment Discrimination - Title VII of the Civil Rights Act of 1964		247,333
		Total Equal Employment Opportunity Commission		**247,333**
		General Services Administration		
39.011		Unassigned		2,304,958
		Total General Services Administration		**2,304,958**
		National Aeronautics and Space Administration		
43.Unassigned		Unassigned		296,727
		Total National Aeronautics and Space Administration		**296,727**
		Institute of Museum and Library Services		
45.310		Grants to States		951,245
45.312		Institute of Museum and Library Services-National Leadership Grant		102,950
		Total Institute of Museum and Library Services		**1,054,195**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

CFDA NO.		GRANT NAME		EXPENDITURES
		National Endowment for the Arts		
45.025		Promotion of the Arts - Partnership Agreements		735,829
		Total National Endowment for the Arts		**735,829**
		National Science Foundation		
47.076		Education and Human Resources	179,844	
47.076	S	ARRA-Education and Human Resources	222,259	
		Subtotal CFDA #47.076		402,103
47.080		Office of Cyber Infrastructure		109,152
47.082	S	ARRA-Trans-NSF Recovery Act Research Support		200,000
		Total National Science Foundation		**711,255**
		Small Business Administration		
59.000		Displaced Business Loans		136,624
		Total Small Business Administration		**136,624**
		U.S. Department of Veterans Administration		
64.203		State Cemetery Grants		579,977
		Total U.S. Department of Veterans Administration		**579,977**
		U.S. Environmental Protection Agency		
66.001		Air Pollution Control Program Support		1,153,799
66.032		State Indoor Radon Grants		121,726
66.034		Surveys Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act		234,308
66.040		State Clean Diesel Grant Program		238,224
66.202		Congressionally Mandated Projects		52,723
66.419		Water Pollution Control State and Interstate Program Support		1,644,668
66.432		State Public Water System Supervision		547,433
66.433		State Underground Water Source Protection		62,949
66.454		Water Quality Management Planning	99,675	
66.454	S	ARRA-Water Quality Management Planning	37,969	
		Subtotal CFDA #66.454		137,644
66.458		Capitalization Grants for Clean Water State Revolving Funds	2,672,788	
66.458	S	ARRA-Capitalization Grants for Clean Water State Revolving Funds	1,400,151	
		Subtotal CFDA #66.458		4,072,939
66.460		Nonpoint Source Implementation Grants		1,069,067
66.461		Wetland Program Development Grants		96,590
66.466		Chesapeake Bay Program		716,084
66.468		Capitalization Grants for Drinking Water State Revolving Funds	13,006,922	
66.468	S	ARRA-Capitalization Grants for Drinking Water State Revolving Funds	3,519,836	
		Subtotal CFDA #66.468		16,526,758
66.472		Beach Monitoring and Notification Program Implementation Grants		173,194
66.511		Office of Research and Development Consolidated Research		28,203
66.605		Performance Partnership Grants		331,478
66.608		Environmental Information Exchange Network Grant Program and Related Assistance		194,998
66.707		TSCA Title IV State Lead Grants Certification of Lead Based Paint Professionals		160,932

CFDA NO.		GRANT NAME		EXPENDITURES
66.801		Hazardous Waste Management State Program Support		782,146
66.802		Hazardous Substance Response Trust Fund		247,624
66.804		Underground Storage Tank Prevention, Detection and Compliance Program		1,095,418
66.805	S	ARRA-Leaking Underground Storage Tank Trust Fund Program Corrective Action Program		393,706
66.809		Core Program Cooperative Agreements		512,792
66.817		State and Tribal Response Program Grants		967,775
66.818		Brownfields Assessment & Cleanup Cooperative Agreements		135,839
66.951		Environmental Education Grants		4,670
		Total U.S. Environmental Protection Agency		**31,703,687**
		U.S. Department of Energy		
81.041	S	ARRA-State Energy Program		2,923,993
81.042		Weatherization Assistance for Low-Income Persons	4,107	
81.042	S	ARRA-Weatherization Assistance for Low-Income Persons	4,135,963	
		Subtotal CFDA #81.042		4,140,070
81.122	S	ARRA-Electricity Delivery and Energy Reliability, Research, Development & Analysis		333,738
81.128	S	ARRA-Energy Efficient and Conservation Block Grant Program		5,630,525
		Total U.S. Department of Energy		**13,028,326**
		U.S. Department of Education		
84.002		Adult Education - State Grant Program		1,743,988
		Title I, Part A Cluster		
84.010		Title I Grants to Local Educational Agencies	41,352,899	
84.389	S	ARRA-Title I Grants to Local Educational Agencies, Recovery Act	4,757,688	
		Total Title 1, Part A Cluster		**46,110,587**
84.011		Migrant Education - State Grant Program		299,159
84.013		Title I State Agency Program for Neglected and Delinquent Children		462,891
84.018		International; Overseas Seminars Abroad Bilateral Projects		25,788
		Special Education Cluster (IDEA)		
84.027		Special Education - Grants to States (IDEA, Part B)	32,942,347	
84.173		Special Education - Preschool Grants (IDEA Preschool)	1,141,527	
84.391	S	ARRA-Special Education Grants to States, Recovery Act	7,124,229	
84.392	S	ARRA-Special Education - Preschool Grants Recovery Act	616,779	
		Total Special Education Cluster		**41,824,882**
		Student Financial Assistance Cluster		
84.007		Federal Supplemental Educational Opportunity Grants	331,921	
84.033		Federal Work Study Program	295,099	
84.063		Federal Pell Grant Program	23,291,582	
84.268		Federal Direct Student Loans	8,486,901	
		Total Student Financial Assistance Cluster		**32,405,503**
		Impact Aid Cluster		
84.041		Impact Aid (Tital VIII of ESEA)	50,157	
		Total Impact Aid Cluster		**50,157**
		TRIO Cluster		
84.042		TRIO - Student Support Services	307,275	
84.044		TRIO - Talent Search	396,039	
84.047		TRIO - Upward Bound	1,599,472	
		Total TRIO Cluster		**2,302,786**

STATE OF DELAWARE
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YEAR ENDED JUNE 30, 2012

CFDA NO.		GRANT NAME	EXPENDITURES	
84.048		Vocational Education - Basic Grants to States	5,172,244	
84.048	S	ARRA-Vocational Education - Basic Grants to States	11,553	
		Subtotal CFDA #84.048		5,183,797
84.069		Leveraging Educational Assistance Partnership		2,250
		Vocational Rehabilitation Cluster		
84.126		Rehabilitation Services - Vocational Rehabilitation Grants to States	12,783,677	
84.390	S	ARRA-Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	75,413	
		Total Rehabilitation Cluster		**12,859,090**
		Independent Living State Grants Cluster		
84.169		Independent Living - State Grants	292,106	
84.398	S	ARRA-Independent Living State Grants Recovery Act	139,180	
		Total Independent Living State Grants Cluster		**431,286**
		Independent Living Services for Older Individuals Who Are Blind Cluster		
84.177		Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	229,442	
		Total Independent Living Serv. For Older Individuals/Blind Cluster		**229,442**
		Early Intervention Services (IDEA) Cluster		
84.181		Special Education - Grants for Infants and Families with Disabilities	2,522,691	
84.393	S	ARRA-Special Education-Grants for Infants & Families, Recovery Act	985,997	
		Total Early Intervention Services (IDEA) Cluster		**3,508,688**
84.184		Safe and Drug-Free Schools and Communities - National Program		76,222
84.185		Byrd Honors Scholarships		3,250
84.186		Safe and Drug-Free Schools and Communities - State Grants		174,647
84.187		Supported Employment Services for Individuals with the Most Significant Disabilities		239,711
		Education of Homeless Children and Youth Cluster		
84.196		Education for Homeless Children and Youth	249,123	
84.196	S	ARRA-Education for Homeless Children and Youth	2,449	
		Subtotal CFDA #84.196	251,572	
84.387		Education for Homeless Children and Youth Recovery Act	60,274	
84.387	S	ARRA-Education for Homeless Children and Youth Recovery Act	22,096	
		Subtotal CFDA #84.387	82,370	
		Total Education of Homeless Children and Youth Cluster		**333,942**
84.213		Even Start - State Educational Agencies		144,735
84.215		Fund for the Improvement of Education		1,156,393
84.243		Tech-Prep Education		172,025
84.265		Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training		48,332
84.282		Charter Schools		10,173
84.287		Twenty-First Century Community Learning Centers		3,886,132
		Educational Technology State Grants Cluster		
84.318		Education Technology State Grants	731,755	
84.386	S	ARRA-Education Technology State Grants, Recovery Act	1,156,898	
		Total Educational Technology State Grants Cluster		**1,888,653**
84.323		Special Education-State Program Improvement Grants for Children with Disabilities		416,734
84.326		Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		84,888
84.330		Advanced Placement Program		52,080
84.331		Grants to States for Workplace and Community Transition Training for Incarcerated Individuals		64,831

CFDA NO.		GRANT NAME		EXPENDITURES
84.358		Rural Education Achievement Program		116,087
84.365		English Language Acquisition Grants		540,861
84.366		Mathematics and Science Partnerships		917,460
84.367		Improving Teacher Quality State Grants		13,129,615
84.369		Grants for State Assessments and Related Activities		2,831,850
84.410	S	ARRA-Education Jobs Funds		18,927,208
84.412		Race to the Top Early Learning		1,110
		School Improvement Grants Cluster		
84.388	S	ARRA-School Improvement Grants, Recovery Act	2,325,560	
		Total School Improvement Grants Cluster		**2,325,560**
84.378		College Access Challenge Grant Program		792,433
84.395	S	ARRA-State Fiscal Stabilization Fund (SFSF)-Race-to-the-top Incentive Grants, Recovery Act		26,535,573
		State Fiscal Stabilization Fund Cluster		
84.394	S	ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants Recovery Act	11,018,968	
		Total State Fiscal Stabilization Fund Cluster		**11,018,968**
		Total U.S. Department of Education		**233,329,767**
		U.S. Department of Health and Human Services		
93.008		Medical Reserve Corps Small Grant Program		1,472
93.041		Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation		22,186
93.042		Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals		101,077
93.043		Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services		94,908
		Aging Cluster		
93.044		Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	2,038,643	
93.045		Special Programs for the Aging-Title III, Part C-Nutrition Services	2,963,615	
93.053		Nutrition Services Incentive Program	231,187	
		Total Aging Cluster		**5,233,445**
93.048		Special Programs for the Aging-Title IV and Title II Discretionary Projects		656,739
93.052		National Family Caregiver Support		708,954
93.061		Innovations in Applied Public Health Research		450
93.064		Laboratory Training, Evaluation, and Quality Assurance Programs		71,470
93.069		Public Health Emergency Preparedness		5,659,466
93.071		Medical Enrollment Assistance Program		11,109
93.072		Lifespan Respite Care Program		100,530
93.092		Personal Responsibility Education Program		341,842
93.103		Food and Drug Administration Research		6,613
93.104		Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)		1,691,925
93.110		Maternal and Child Health Federal Consolidated Programs		618,582
93.116		Project Grants and Cooperative Agreements for Tuberculosis Control Programs		301,418
93.127		Emergency Medical Services for Children		102,700
93.130		Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices		264,042
93.136		Injury Prevention and Control Research and State and Community Based Programs		129,807
93.150		Projects for Assistance in Transition from Homelessness (PATH)		350,000
93.165		Grants for State Loan Repayment		60,250

STATE OF DELAWARE
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CFDA NO.		GRANT NAME		EXPENDITURES
93.197		Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children		24,960
93.217		Family Planning Services		1,134,196
93.236		Grants for Dental Public Health Residency Training		564,771
93.243		Substance Abuse and Mental Health Services Projects of Regional and National Significance		3,040,588
93.251		Universal Newborn Hearing Screening		214,685
93.259		Rural Access to Emergency Devices Grant		20,090
93.270		Adult Viral Hepatitis Prevention and Control		93,838
		Immunization Cluster		
93.268		Immunization Grants	10,216,891	
93.712	S	ARRA-Immunization	121,504	
		Total Immunization Cluster		**10,338,395**
93.279		Drug Abuse Research Programs		13,719
93.283		Centers for Disease Control and Prevention, Investigations, and Technical Assistance		4,582,781
93.296		State Partnership Grant Program to Improve Minority Health		146,155
93.389		Research Infrastructure		151,116
93.402	S	ARRA-State Loan Repayment Program		24,000
93.414	S	ARRA-State Primary Care Offices		38,601
93.505		Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		1,222,363
93.506		ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers		636,090
93.507		Strengthening Public Health Infrastructure for Improved Health Outcomes		198,072
93.511		Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review		83,874
93.518		Affordable Care Act (ACA) Improvements to Patients and Providers		16,136
93.519		Affordable Care Act (ACA) Consumer Assistance Program Grants		17,153
93.520		Affordable Care Act (ACA) Communities Putting Prevention to Work		89,445
93.521		The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements		508,410
93.523		The Affordable Care Act: Human Immunodeficiency Virus (HIV) Prevention and Public Health Fund Activities		28,640
93.525		State Planning and Establishment Grants for the Affordable Care Act (ACA)s Exchanges		1,114,593
93.544		Coordinated Chronic Disease Prevention		76,543
93.556		Promoting Safe and Stable Families		842,118
		TANF Cluster		
93.558		Temporary Assistance for Needy Families	34,807,453	
93.714	S	ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families	5,618	
		Total TANF Cluster		**34,813,071**
93.563		Child Support Enforcement		26,646,112
93.566		Refugee and Entrant Assistance-State Administered Programs		89,386
93.568		Low-Income Home Energy Assistance		11,978,905
		CSBG Cluster		
93.569		Community Services Block Grant	3,631,328	
		Total CSBG Cluster		**3,631,328**
93.586		State Court Improvement Program		539,364
		CCDF Cluster		
93.575		Child Care and Development Block Grant	3,797,535	
93.596		Child Care Mandatory & Matching Funds of the Child Care and Development Fund	10,279,132	
		Total CCDF Cluster		**14,076,667**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

CFDA NO.		GRANT NAME	EXPENDITURES	
93.597		Grants to States for Access and Visitation Programs		107,482
93.599		Chafee Education and Training Vouchers Program (ETV)		92,676
		Head Start Cluster		
93.600		Head Start	107,681	
93.708	S	ARRA-Head Start	143,393	
		Total Head Start Cluster		**251,074**
93.603		Adoption Incentive Payments		87,000
93.617		Voting Access for Individuals		100,000
93.630		Developmental Disabilities Basic Support and Advocacy Grants		463,534
93.643		Children's Justice Grants to States		117,605
93.645		Child Welfare Services - State Grants		809,324
93.658		Foster Care - Title IV-E		3,853,956
93.659		Adoption Assistance		1,173,096
93.667		Social Services Block Grant		3,777,771
93.669		Child Abuse and Neglect State Grants		100,921
93.671		Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes		696,955
93.674		Chafee Foster Care Independent Living		416,446
93.713	S	ARRA-Child Care and Development Block Grant		(50,242)
93.717	S	ARRA-Preventing Healthcare - Associated Infections		141,551
93.718		Health Information Technology Regional Extension Centers Program		30,982
93.719	S	ARRA-State Grants to Promote Health Information Technology		236,093
93.723	S	ARRA-Prevention and Wellness State, Territories and Pacific Islands		1,094,573
93.725	S	ARRA-Communities Putting Prevention to Work; Chronic Disease Self-Mgmt Program		43,074
93.767		Children's Health Insurance Program		15,532,999
		Medicaid Cluster		
93.775		State Medicaid Fraud Control Units	1,338,491	
93.777		State Survey and Certification of Health Care Providers and Suppliers	1,774,363	
93.777	S	ARRA-State Survey and Certification of Health Care Providers and Suppliers	413	
		Subtotal CFDA #93.777	1,774,776	
93.778		Medical Assistance Program	843,048,393	
		Total Medicaid Cluster		**846,161,660**
93.779		Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations		238,575
93.791		Money Follows the Person Rebalancing Demonstration		872,209
93.889		National Bioterrorism Hospital Preparedness Program		1,131,117
93.913		Grants to States for Operation of Offices of Rural Health		150,688
93.917		HIV Care Formula Grants		6,150,175
93.938		Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems		275,342
93.940		HIV Prevention Activities Health Department Based		1,621,615
93.944		Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		479,000
93.946		Cooperative Agreements to Support State-Based Safe Motherhood & Infant Health Initiative Programs		113,302
93.958		Block Grants for Community Mental Health Services		897,896
93.959		Block Grants for Prevention and Treatment of Substance Abuse		6,324,840
93.977		Preventive Health Services Sexually Transmitted Diseases Control Grants		418,264
93.991		Preventive Health and Health Services Block Grant		160,481
93.994		Maternal and Child Health Services Block Grant to the States		1,904,807
		Total U.S. Department of Health and Human Services		**1,029,501,991**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2012

CFDA NO.		GRANT NAME		EXPENDITURES
		Corporation for National and Community Service		
94.002		Retired and Senior Volunteer Program		139,346
94.003		State Commissions		130,709
94.006		AmeriCorps		655,558
94.007		Program Development and Innovation Grants		11,145
94.009		Training and Technical Assistance		45,956
		Foster Grandparent/Senior Companion Cluster		
94.011		Foster Grandparent Program	604,360	
		Total Foster Grandparent/Senior Companion Cluster		**604,360**
		Total Corporation for National and Community Service		**1,587,074**
		Social Security Administration		
		Disability Insurance/SSI Cluster		
96.001		Social Security - Disability Insurance	6,401,335	
		Total Disability Insurance/SSI Cluster		**6,401,335**
96.008		Social Security - Benefits Planning, Assistance, and Outreach Program		106,469
		Total Social Security Administration		**6,507,804**
		U.S. Department Homeland Security		
97.001		Special Projects		24,558
		Homeland Security Cluster		
97.067		Homeland Security Grant Program	6,765,839	
		Total Homeland Security Cluster		**6,765,839**
97.012		Boating Safety Financial Assistance		933,987
97.017		Pre-Disaster Mitigation (PDM) Competitive Grants		607,703
97.023		Community Assistance Program State Support Services Element (CAP-SSSE)		91,446
97.029		Flood Mitigation Assistance		720,663
97.036		Public Assistance Grants		2,545,532
97.039		Hazard Mitigation Grant		126,149
97.041		National Dam Safety Program		55,280
97.042		Emergency Management Performance Grants		1,975,433
97.043		State Fire Training Systems Grants		3,297
97.045		Cooperating Technical Partners		282,785
97.047		Pre-Disaster Mitigation		19,536
97.052		Emergency Operations Center		130,834
97.056		Port Security Grant Program		9,100
97.075		Rail and Transit Security Grant Program		951,438
97.078		Buffer Zone Protection Plan (BZPP)		125,649
97.089		Driver's License Security Grant Program (Dept. of Homeland Security, FEMA)		459,611
97.111		Regional Catastrophic Preparedness Grant Program		(874)
97.116	S	ARRA-Port Security Grant Program		438,431
		Total U.S. Department Homeland Security		**16,266,397**
		Total Expenditures of Federal Awards	$	**2,192,750,321**

Legend:

S Award made under the American Recovery and Reinvestment Act

(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, Delaware Technical and Community College Foundation, 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, 2012 totaled $8,486,901. 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, 2012 are $127,878,307.

(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)	223,046,204
10.569	Emergency Food Assistance Program (Commodities)	1,138,530
93.268	Immunization Grants (Vaccines)	8,565,491

(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 approximately 10.95 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2012.

(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

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2012

(1) Summary of Auditors' Results
Basic Financial Statements

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

(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: **No.**

(c) Significant deficiencies: **Yes.**

(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
17.258, 17.259, 17.260, S-17.260, 17.278	Workforce Enforcement Act Cluster
66.468, S-66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.010, S-84.389	Title I Grants to Local Educational Agencies
84.027, 84.173, S-84.391, 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
93.268, S-93.712	Immunization Cluster
93.558, S-93.714	Temporary Assistance for Needy Families Cluster
93.568	Low-Income Home Energy Assistance Program
93.563	Child Support Enforcement

CFDA No.	Program Name
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
10.558	Child and Adult Care Food Program
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
15.605, 15.611	Fish and Wildlife Cluster
17.225, S-17.225	Unemployment Insurance
17.258, 17.259, 17.260, S-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
66.468 S-66.468	Capitalization Grants for Drinking 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-84.391, S-84.392	Special Education Cluster

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2012

CFDA No.	Program Name
84.367	Improving Teacher Quality State Grants
84.126, S-84.390	Vocational Rehabilitation Cluster
S-84.394	State Fiscal Stabilization Fund Cluster
S-84.395	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
S-84.410	Education Jobs Fund
93.268, S-93.712	Immunization Cluster
93.558, S-93.714	Temporary Assistance For Needy Families Cluster
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance Program
93.575, 93.596	Child Care Cluster
93.767	Children's Health Insurance Program
93.775, 93.777, S-93.777, 93.778	Medicaid Cluster

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

Type of Opinion	Program Name
Qualified	
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
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
	Workforce Investment Act Cluster

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2012

Type of Opinion	Program Name
17.258, 17.259, 17.260, S-17.260, 17.278	
66.468 S-66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.010, S-84.389	Title I Grants to Local Educational Agencies, Part A, Cluster
84.027, 84.173, S-84.391, S-84.392	Special Education Cluster
84.367	Improving Teacher Quality State Grants
S-84.394	State Fiscal Stabilization Fund Cluster
S-84.395	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
S-84.410	Education Jobs Fund
93.558, S-93.714	Temporary Assistance For Needy Families Cluster
93.268, S-93.712	Immunization Cluster
93.563	Child Support Enforcement
93.575, 93.596	Child Care Cluster
93.568	Low-Income Home Energy Assistance Program
93.767	Children's Health Insurance Program
93.775,	Medicaid Cluster

Type of Opinion	Program Name
93.777, S-93.777, 93.778	
Unqualified	
12.401	National Guard Military Operations and Maintenance (O&M) Projects
15.605, 15.611	Fish and Wildlife Cluster
17.225, S-17.225	Unemployment Insurance
20.205, S-20.205, 20.219	Highway Planning and Construction Cluster
20.500, 20.507, S-20.507	Federal Transit Cluster
84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster
84.126, S-84.390	Vocational Rehabilitation Cluster
97.067	Homeland Security 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	Supplemental Nutrition Assistance Program Cluster

CFDA Number	Federal Award Number	Program Name
	12121DE401S2519 12121DE401S2520 12121DE401S2522 12121DE401S8026 12121DE401S8036 1212DE401S2514 1313DE401E2518 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 1DE300301 2011IN109941 2012IN109941 2012IN109941	Child Nutrition Cluster
10.557	11111DE701W1003 11111DE701W1006 2009IW500341 2010IW500341	Special Supplemental Nutrition Program for Women, Infants & Children

CFDA Number	Federal Award Number	Program Name
	2011IW500341 2012IW100641 2012IW500341 2013IW100341 2013IW100641	
10.558	1DE300301 2012IN109941 2012IN202041	Child and Adult Care Food Program
12.401	1002 1021 1023 1001\1003-1005\1007\ 11-1001-3-4-5-10-40 11-1002 11-1021 11-1023 11-1627 12-1001 12-1002 12-1023 ANG O&M 2012 APPEND 1625 1626 SAI 12-07-17-07 SAI 12-07-17-08 SAI 12-07-17-09 SAI 12-07-17-10 W912L5-10-2-1001	National Guard Military Operations and Maintenance (O&M) Projects
15.605, 15.611	F-2-D-58 F-2-D-59 F2D60 F2D61 MARINE DEV F-2-D-62 F-33-R-1 F-33-R-29 F-33-R-30 F-41-R-21	Fish and Wildlife Cluster

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2012

CFDA Number	Federal Award Number	Program Name
	F-41-R-22	
	F-41-R-23	
	F-42-R-21	
	F-42-R-22	
	F-42-R-23	
	F-42-R-24	
	F-43-E-20	
	F-43-E-21 ARE PROG	
	F43E22 DE AQUATIC	
	F-43-E-23	
	F-47-R-20	
	F-47-R-21	
	F-47-R-22	
	F-48-D-17	
	F-48-D-18	
	F-48-D-19	
	F-48-D-20 - Artifici	
	F50D10	
	F50D11 Fresh Trout	
	F-50-D-9	
	F-51-T-17	
	F-51-T-18	
	F-51-T-19 Fish Tech	
	F-52-C-17	
	F-52-C-18	
	F52C19 Fish Coord	
	F-52-C-20	
	F-56-R-15	
	F-56-R-16	
	F-56-R-17	
	F-65-R-10	
	F-65-R-11	
	F65R12 FISH RES VESS	
	F-65-R-9	
	F70D10 Aquatic Veg	
	F-70-D-8	

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2012

CFDA Number	Federal Award Number	Program Name
	F-70-D-9	
	F-73-R-6	
	F-73-R-7	
	F73R8 DE Sciaenid Re	
	F-73-R-9	
	F-74-D-5	
	F-74-D-6	
	F74D7	
	F74D8 Freshwater Dev	
	F-75-R-5	
	F-75-R-6	
	F75R7	
	F-76-D-1	
	F-77-T-5	
	F-77-T-6	
	F-77-T-7 freshw tech	
	F-77-T-8	
	F-78-D-1	
	F-81-D-1	
	NFWF RED KNOT 21550	
	W-21-R-45	
	W-21-R-46	
	W-21-R-47 Atl Flyway	
	W-21-R-48	
	W-30-C-17	
	W30C18 WILDLIFE COOR	
	W30C19	
	W-30-C-20	
	W-33-R-13	
	W-33-R-14	
	W-34-S-13	
	W34S14 DE HE	
	W34S15 DE HUNTER	
	W-34-S-16	
	W-35-R-10	

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2012

CFDA Number	Federal Award Number	Program Name
	W-35-R-11 W35R12 W INV - DEER W-35-R-13 W-36-R-10 W-36-R-11 W-36-R-12 W36R13 W INVEST SURV W-36-R-14 W-37-R-10 W-37-R-11 W-37-R-12 W37R13 W INV WATERF W-37-R-14 W-38-12 W-38-R-10 W-38-R-11 W38R13 W INV TURKEY W-38-R-14 W-41-D-1 w-42-l-1 W-5-D-61 W5D62 W-5-D-63 HABITAT DEV W5D64	
17.225, S-17.225	ES-22055-11-55-A UI10446530955A10 UI-16738-08-55-A-10 UI180120955A10 UI180129M0 UI195741055A10 UI21091EW-UI21091DV UI22267JH	Unemployment Insurance
17.258, 17.259,	2-115-Y	Workforce Investment Act Cluster

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2012

CFDA Number	Federal Award Number	Program Name
17.260, S-17.260, 17.278	2-117-Y 2-119-STYY 2-120-STYY 3-122-Y 3-124-Y 3126STYY 3-146-STSY 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	Federal Transit Cluster
66.468, S-66.468	99391412 2F-093914-09-0 FS-993914050 FS-993914050-DA FS-99391406 FS-99391407-0 FS993914080	Capitalization Grants for Drinking Water State Revolving Funds

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2012

CFDA Number	Federal Award Number	Program Name
	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 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 P063P093468	Student Financial Assistance Cluster

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2012

CFDA Number	Federal Award Number	Program Name
	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	H391A090022 S010A070008 S010A080008 S010A090008 S010A100008A S010A110008 S010A120008 S013A090008 S365A100008 S389A090008 S394A090053	Title I Grants to Local Educational Agencies
84.027, 84.173, S-84.391, S-84.392	H027A070022 H027A080022 H027A090022 H027A100022A	Special Education Cluster (IDEA)

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2012

CFDA Number	Federal Award Number	Program Name
	H027A120022 H027AO80022 H173A070025 H173A080025 H173A090025 H173A100025 H173A110025 H173A120025 H391A090022 H392A090025	
84.126, S-84.390	H126A090009 H126A090010 H126A100009 H126A100011 H126A110009 H126A110010 H126A120009 H126A120010 H126A130010 H390A090009 H390A090010	Vocational Rehabilitation Cluster
84.367	S367A080007 S367A090007 S367A100007A S367A110007 S367B070008A S367B080008 S367B090008A S367B100008 S367B110008 S367B120008	Improving Teacher Quality State Grants
S-84.394	S394A090053 SFSF 49-09 SFSF 50-09 SFSF 51-09 SFSF 52-09	State Fiscal Stabilization Fund Cluster

CFDA Number	Federal Award Number	Program Name
S-84.395	S395A100007	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
S-84.410	S410A100053	Education Jobs Fund
93.268, S-93.712	5H231P322567-08 OCCH322567 3H23IP322567-07SI	Immunization Cluster
93.558, S-93.714	0901DETAN2 1102DETANF 1202DETANF 1302DETANF G-0802DETANF G-0902DETANF G1001DETAN2 G1002DETANF	Temporary Assistance for Needy Families Cluster
93.563	0904DE4004 1004DE4004 1004DE4002 1104DE4004 1204DE4005	Child Support Enforcement
93.568	G-09B1DELIEA G-10B1DELIEA G-11B1DELIEA 1001DELIE2 G12B1DELIEA	Low-Income Home Energy Assistance Program
93.575, 93.596	07072507A 0801DECCDF 1001DECCDF 1101DECCDF 1201DECCDF 1301DECCDF 2009G9966005 G-0801DECCDF G-0901DECCDF G1001DECCDF	Child Care Cluster

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2012

CFDA Number	Federal Award Number	Program Name
93.767	05-0805DE5021 05-0905DE5021 1005DE5021 1105DE5021 1205DE5021	State Children's Health Insurance Program
93.775, 93.777, S-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 09INC-FMAP 1005DE5000 1005DE5MAP 1105DE5000 1105DE5001 1105DE5002 1105DE5MAP 1105DEARRA 1105DEEXTN 1201-DE-5050 1205DE5000 1205DE5001 1205DEIMPL 1205DEINCT 1305DE5000 1305DE5001 XIX-ADM13 XIX-MAP13	Medicaid Cluster
97.067	2006GET60060 2006-GE-T6-0060	Homeland Security Cluster

CFDA Number	Federal Award Number	Program Name
	2007-GE-T7-0020	
	2007RLT7K104	
	2008GET70020	
	2008GET80024	
	2008-GE-T8-0024	
	2009SST90038	
	2010-SS-T0-0036	

(j) Dollar threshold used to distinguish between Type A and Type B programs: **$6,578,251.**

(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, 2012 were reported in accordance with *Government Auditing Standards* by KPMG LLP. See ***Section 2*** of the Schedule of Findings and Questioned Costs for items **2012-01** to **2012-02**.

(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

2012-01. Lack of Controls over the Comprehensive Annual Financial Report (CAFR) Preparation (associated with prior year findings 2011-01, 2010-01, 2009-01, 2008-1, 2008-05, 2007-01, 06-FIN-01, 06-FIN-02, 05-FIN-01, 05-FIN 02, 04-FIN-01, 04-FIN-02, 03-FIN-01, 03-FIN-02)

Background/Conditions

At year-end, 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). During the fiscal year, the State operates and records transactions on the cash and budget basis of accounting using First State Financials (FSF), the State's accounting system. The cash basis of accounting differs significantly from the accrual basis of accounting and modified accrual basis of accounting, which are used in reporting information included in the Comprehensive Annual Financial Report (CAFR).

As the FSF is not used throughout the year to capture transactions on the accrual basis or modified 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. To add to the complexity, the State's component units and several large agencies/departments have separate audits that need to be coordinated. Unless an agency receives a separate audit, accrual accounting packages (GAAP packages) continue to be completed annually by personnel in departments and agencies across the State. As such, the State's financial reporting process is dependent on cooperation from the State's component units and other agencies. The State's Division of Accounting (DOA) compiles this information using an ad-hoc report writer software program, CAFR 2000.

As noted above, when there is not a separate audit, GAAP packages are completed annually by personnel in departments and agencies across the State based on training and instructions provided by DOA. As a result, there are many manual processes completed by agency/department personnel. These processes include the development of accounts receivables and related allowances for uncollectible accounts, accruals of State obligations, the development of construction-in-progress related to capital assets, and the capture of cash and investment balances controlled outside of the Treasurer's Office. Many of the State's agencies use systems outside of the current statewide accounting system to gather and track the required information. This adds to the complexity of the year-end reporting and reconciliation process. In addition, the GAAP package reporting process includes the preparation of over 125 packages and relies heavily on agency personnel, many of whom lack the necessary experience and accounting background to properly complete the packages. As a result, the financial statement preparation process still entails compiling worksheets, completing reconciliations, customizing reports and recording various adjustments.

It was noted during our audit that DOA's internal review process resulted in improvements in the completeness and accuracy of amounts reported by the various agencies through the GAAP packages and helped to minimize the amount of errors detected through the audit process.

However, 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.

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

Year End Accounts Payable Accruals:

We identified various errors during our testing of the June 30, 2012 accounts payable balances in the general, federal, and capital projects funds. In all three funds, invoices were not properly accrued as of June 30, 2012. Specifically, we identified the following:

- One (1) invoice for services that occurred in fiscal year 2013 was improperly accrued for in the general fund as of June 30, 2012, resulting in a net overstatement of $5.5 million. An adjustment for this amount was not recorded in the financial statements.
- Four (4) invoices for services that occurred in fiscal year 2013 were improperly accrued for in the federal fund as of June 30, 2012, resulting in a net overstatement of $17.7 million.
- Fifteen (15) invoices in the capital projects fund related to service periods that crossed the State's fiscal year-end; however, the accrual was not properly pro-rated between fiscal years, resulting in a net understatement of $8.0 million.

Due to the significance of the federal fund and capital projects fund entries, an adjustment was required in the financial statements for these amounts.

Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54):

During our audit of the classifications of general fund balance, we noted the following errors, which required adjustment in the financial statements:

- $6.0 million of the fund balance related to the Harness Racing Commission was improperly classified as assigned instead of committed fund balance;
- $52.6 million of fund balance related to the Clean Water State Revolving Loan Funds was improperly classified as assigned instead of restricted fund balance;
- $1.0 million of fund balance related to Department of Transportation special projects was improperly classified as committed instead of assigned fund balance;

There was a lack of adequate underlying documentation to support the proposed classification of $2.6 million of restricted fund balance relating to monies collected by the State Family Courts from litigants for services needed for trial. We note that the pass-through nature of the funds collected and purpose for which the funds are used supports a restricted classification, however, the courts were unable to provide a formal policy or written agreement to support the restriction of these funds. An adjustment for this amount was not recorded in the financial statements.

Grants Receivable

During our procedures performed over the Department of Health and Social Services (DHSS) *Grants Receivables* GAAP package information, we noted that the receivable balance erroneously included amounts related to two grants that had been fully expended and drawn down in fiscal year 2011. This resulted in the grant receivable balance being overstated by $2.6 million.

Secondly, during our procedures performed over the Department of Labor, Division of Unemployment Insurance (UI) *Grants Receivables* GAAP package information, we noted the receivable balance was calculated using incorrect amounts for the total grant expenditures as of June 30, 2011. This resulted in the grant receivable balance being overstated by $2.1 million.

Thirdly, during our review of the Department of Education *Grants Receivables* GAAP package information, we noted that the receivable balance erroneously included amounts related to two grants that had been fully expended and drawn down as of December 2011. This resulted in the grant receivable balance being overstated by $18.1 million. Due to the significance of this error, an adjustment was made to the financial statements.

Lastly, during our overall review of *Grants Receivables*, we obtained the Federal drawdown requests prepared by various agencies, including DHSS, Department of Education, Criminal Justice Council, Department of Safety and Homeland Security, Department of Natural Resources and Environmental Control, Department of Agriculture and Department of Labor for the 60-day period following year-end, which drives revenue recognition, and noted that the entire amount of the receivables reported in the related GAAP packages was recorded as revenue, even though $15.1 million of the funds were not drawn-down within the 60 day period of availability. Consequently, it was necessary to adjust this amount from *Grant Revenue* to *Deferred Revenue* in the financial statements.

<u>Accounting for Investments</u>

It is the State's policy to present its investments, net of any payables for securities purchased, receivables for any securities sold, and accrued interest. Per Accounting Principles Board (APB) Opinion 10, paragraph 7(1), "it is a general principle of accounting that the offsetting of assets and liabilities on the balance sheet is improper except when a right of setoff exists." It further states that "A right of setoff is a debtor's legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying against the debt and amount that the other party owes to the debtor. A right of setoff exists when all of the following conditions are met: a) each of the two parties owes the other determinable amounts, b) the reporting party has the right to set off the amount owed with the amount owed by the other party, c) the reporting party intends set off, and d) the right of set off is enforceable at law."

As the criteria allowing the right of setoff was not met for these transactions, we noted that the State inappropriately netted $21.6 million of receivables for securities sold, $6.1 million of accrued interest, and $32.2 million of payables for securities purchased against the investment balance at June 30, 2012. Adjustments for these amounts were not recorded in the financial statements.

Additionally, we noted two (2) errors when auditing the year-end cash and investment reconciliation as follows:

- The reconciliation recorded a mark-to-market adjustment for investments; however, the investment balance was already carried forward from the trustee statements at market value, resulting in an overstatement of investments of approximately $6.8 million;
- The investment bank balance listed on the reconciliation was overstated by approximately $1.3 million as it did not agree to the trustee-confirmed amount.

Lastly, we noted an un-reconciled difference of $6.8 million between the balance of investments reported in the government-wide financial statements and the total investments included in the notes to the financial statements. This difference did not require adjustment to the financial statements.

Preparation of the CAFR

It was noted during the audit team's review and tie-out of the draft CAFR document that DOA did not have adequate controls in place to ensure proper management of the edits and changes made between various versions of the draft CAFR document. For example, in one draft version, an entire column of a table in the notes to the financial statements was mistakenly removed. In another draft version of the document, a table within the Required Supplementary Information section of the draft CAFR had been mistakenly deleted from the draft, which had been added in a prior iteration of the document. In both cases, these errors were detected by the audit team's review process and the appropriate changes were made to the final draft by DOA.

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. Lastly, certain State agencies/departments continue to develop a sufficient working knowledge of how to properly generate and interpret various system reports leading to errors and delays in reporting financial information to DOA.

Personnel Assigned

Many of the personnel assigned to complete the GAAP packages are not formally-trained accountants and; therefore, rely heavily on training and instruction from DOA to accurately prepare the GAAP packages.

Lack of Managerial Review

Controls are in place at DOA over management review of financial statement information provided by the agencies/departments for inclusion in the State-wide financial statements; however, despite some improvement, the controls were not operating effectively. Instead, management relies heavily on the audit process to identify and propose corrections to errors in the financial statements.

Non-GAAP Policies

The misstatements related to investments were caused by the State's non-GAAP policy to net investment related receivables and payable against the investment balance reported on the face of the financial statements.

Effect

Due to the manual 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.

Recommendations

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 include an evaluation of the reasonableness of individual financial statement line items 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. Specific 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.

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 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. In addition, due to the size and complexity of the State, we recommend that the State continue to expand its resources with additional trained accountants at State agencies/departments.

We 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. The importance of accurate and timely submission of financial information should be communicated to the senior management responsible for these entities/agencies. The process to transition the preparation of the GAAP package to new personnel should be planned and coordinated to maximize knowledge transfer. In addition, we recommend that accounting resources in the DOA continue to communicate and train the agency staff year-round to improve the year-end reporting process and develop better information sources to complete the GAAP packages. The current year training on GAAP package preparation should be updated to include more theoretical basis for what should be included in the packages.

Lastly, we recommend that the DOA refine its process for managing the preparation and subsequent editing of the CAFR document and therefore, rely less on the audit process to identify errors and omissions of required financial information. This should include a detailed management-level review by DOA before a draft CAFR is provided to the auditor.

Views of Responsible Officials

In fiscal year 2012, the Division of Accounting (DOA) has expanded their personnel by three State Accountants, which includes the addition of a seasoned and knowledgeable State Accountant V who is responsible for CAFR preparation. The expansion has also allowed DOA to better segregate the preparation and review process over many components of the CAFR. In the current fiscal year, DOA has continued its pursuit of excellence in financial reporting by creating two new positions to manage financial reporting throughout the state.

DOA continues to develop and redesign GAAP training content based on information received from the prior year's GAAP process, questions raised by Organizations, and audit findings. We noted a significant improvement in the FY2012 GAAP process. The improvement is directly attributed to our recent training revisions, a leveling learning curve, with respect to our new accounting system, our recent personnel change and the support of senior leadership at the Office of Management and Budget and the Department of Finance. We received praise from the audit team on the response time to the audit requests for this year.

During this year, we were able to review the grant receivable collection reports included in the GAAP process. With this review, we were able to determine that DOA can run reports centrally in First State Financials (FSF) to gather grants receivable data on behalf the Organizations; thereby removing that step in the GAAP process. The significance of this accomplishment can be measured by efficiency gained and time saved by agency staff as well as an overall improvement in the accuracy of information reported. In addition, we will continue to monitor the grant drawdown process and continue to analytically compare the grants receivable balances with the draw downs just to ensure the reports are reliable.

We understand the recommendation that our auditors would like the State to contain all of its financial data in one system. The primary purpose of the state's accounting system is to support general operations and record financial transactions. Further accounting processes, such as accounts payable and accounts receivable are decentralized. Implementing an accrual accounting system in such an environment would be inefficient and likely result in additional financial reporting concerns. Therefore, we will continue to have certain accounts for taxes, loans and agency receivables collected during our GAAP process and do not intend for them to be included in the system. However, we will continue monitoring the various GAAP functions and report systematically, where possible.

During this CAFR process we enhanced our review of accounts payable. However, the materiality threshold chosen by DOA was not as low as the threshold selected by the auditors. The difference in thresholds led to the auditors uncovering additional items in their detail testing and is due to the nature of the compilation process versus an audit.

We continue to make improvements in fund balance reporting since GASB 54 was implemented two years ago. However, there still are appropriations that meet the requirements of GASB 54, but are not considered properly supported by way of documentation your auditor's definition. We will continue to work with the auditors to determine the criteria for support to ensure that the organizations will be able to supply when they are selected in any following year.

2012-02. Lack of Controls over Accounting and Reporting at the School Districts (associated with prior year findings 2011-02, 2010-02, 2009-02, 2008-03)

Background/Conditions

The school districts (SDs) are considered part of the State's primary government and the SDs' activity is consolidated into the financial information of the State and reported to the DOA through the use of GAAP packages, as previously described. As such, a series of modified accrual journal entries are prepared and recorded by the DOA based on the information in the GAAP packages. The SDs are extremely de-centralized from the rest of the State's primary government agencies. In addition, the majority of SD personnel with the responsibility for the preparation and submission of the financial information used in the preparation of the State's financial statements lack the necessary experience and accounting background to properly and accurately complete the information required on the GAAP packages.

During the course of our audit, we selected and reviewed the financial information for all nineteen (19) school districts, and we noted the following observations:

SD Revenue Classifications

During our testing of revenue transactions at the school districts, we identified that certain school districts improperly recorded cash received for reimbursements of expenditures as revenue within FSF. These transactions related both to expenditure recoveries and payroll expenditure reimbursements, which do not represent revenue per GAAP and should be recorded as a reduction to expenditures in the financial statements. The transactions were as follows:

- Seven (7) transactions at Laurel school district totaling $19,064;
- One (1) transaction at Delmar school district totaling $61,028;
- Three (3) items at Cape Henlopen school district totaling $22,804; and
- Six (6) items at Woodbridge school district totaling $16,748.

These items were charged to the revenue account code 46152 (expense recoveries) or 48010 (payroll expense reimbursements) in FSF. Therefore, the audit team proposed adjustments to reclassify all local school district fund revenues recorded to these two account codes in FSF to expenditure reductions, which totaled $1.1 million and $0.9 million, respectively. Adjustments for these amounts were not recorded in the financial statements.

In addition, we noted 56 transactions for similar expenditure reimbursements amounting to $544,463 across the Brandywine, Caesar Rodney, Cape Henlopen, Christina, Colonial, Indian River, Laurel, Milford, Polytech, Red Clay, Seaford and Smyrna districts that were charged to other various revenue account codes in FSF. Adjustments were also proposed to reclassify these amounts from revenues to reductions in expenditures; however, these amounts were not recorded in the financial statements.

Lastly, we identified one instance at Milford school district where a negative revenue transaction was recorded as opposed to an expenditure, totaling $1,918, and 2 instances at Colonial school district where revenue related to dividend income was recorded as other revenue as opposed to interest and investment income, totaling $31,585. Adjustments for these amounts were not recorded in the financial statements.

<u>Payroll Human Resources Statewide Technology (PHRST) Payroll Tables</u>

In order to test the accuracy of the school district salary tables in the PHRST System for each of the school districts, we sampled 25 salary line items and agreed the salary amounts to the respective school district's payroll tables as approved by the school board of education. During our testing, we noted at 15 of the 19 school districts, the following number of instances where the salary tables in PHRST did not agree to the respective board approved rates:

- Nine (9) instances at Appoquinimink school district;
- Eleven (11) instances at Brandywine school district;
- Sixteen (16) instances at Cape Henlopen school district;
- Five (5) instances at Capital school district;
- Six (6) instances at Christina school district;
- One (1) instance at Colonial school district;
- Six (6) instances at Delmar school district;
- Two (2) instances at Indian River school district;
- Three (3) instances at Lake Forest school district;
- Seven (7) instances at Laurel school district;
- Four (4) instances at New Castle Vo-Tech district;
- Eleven (11) instances at Red Clay school district;
- Twenty (20) instances at Seaford school district;
- Five (5) instances at Sussex Tech school district;
- Fifteen (15) instances at Woodbridge school district.

It was also noted that for each of the instances at the school districts included above, the employees were being paid at the correct board approval salary rate, as the districts do not necessarily rely on the salary tables in PHRST to ensure that the district employees are properly paid the correct salary for their respective position and level. The district can make manual adjustments to the employees' salaries from the amounts reflected in the PHRST tables to ensure the proper board approved salary rates are used when processing payroll.

<u>PHRST – Payroll Data</u>

During the course of our audit, we performed various routines over the payroll and human resource data of the school districts and identified the following items:

1. We determined that the State does not utilize the part time/full time indicator in the PHRST system to determine an employee's status. Instead, the employee's "regular hours" are utilized, and the State considers anyone who works 75 or more regular hours as a full time employee;

2. We identified multiple individuals in the school district human resources master file with different employee IDs that shared the same home addresses;

3. We identified numerous records in the payroll data of the school districts where total hours incurred in a single paycheck were in excess of similar employees of the same pay scale. Our review of 22 of these paychecks identified 7 instances where employees did not timely submit their time sheets, and would often submit time sheets reporting hours for multiple time periods;

4. We identified numerous records in the payroll data of the school districts where "other earnings" were in excess of similar employees of the same pay scale. During our review of 16 of these

paychecks, we identified one instance relating to a vacation and sick leave payout where the calculation of leave was inaccurate, resulting in an overpayment of $4,527. We also identified one instance where the final vacation and sick leave payout for a retired superintendent lacked final approval, as the superintendent is typically the final approver of these items; and

5. We identified numerous records in the payroll data of the school districts where regular earnings were in excess of similar employees of the same pay scale. During our review of 15 of these paychecks, we identified one instance where the payment related to work performed from April through June of 2009, and we were unable to obtain sufficient supporting documentation due to the lag time involved with the payment.

Criteria

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

Cause

There is a lack of formally-trained accountants with the necessary skills to accurately prepare the financial information included in the State-wide financial statements. The SDs have been instructed to record cash receipts using various revenue codes within the FSF system, which does not take into consideration the nature of the cash receipt (i.e. revenue vs. reduction of expenditures).

In addition, the salary tables in PHRST are not being updated in a timely manner to agree to the most recent board approved salary rates for the school districts, therefore, manual adjustments are made to the rates by SD personnel when processing payroll transactions.

There are insufficient system edit checks to identify and remedy non-submission of timesheets. In addition, there is no documented analysis performed by the State to identify potential anomalies in the school district payroll data.

Effect

Revenues for the school districts could be materially overstated while expenditures could be materially understated.

Due to the manual processes used to adjust the salary rates in PHRST, errors in payroll transactions could go undetected.

Due to the items found related to payroll data, payroll transactions may be inaccurate or untimely.

Recommendations

We recommend that DOA provide more robust training to the school district personnel on the proper use of FSF to record cash receipt transactions to ensure that those transactions relating to expense reimbursements are properly reflected in the FSF general ledger. We further recommend that the PHRST salary tables are updated in a timely manner to reflect the current approval salary rates so that no additional manual adjustments are required to ensure the accuracy of the salary amounts paid to employees.

We recommend that system edit checks are implemented within the PHRST system to identify non-submission of timesheets to prevent significant delays in time recognition. In addition, we recommend that the State implement checks to identify potential anomalies in the payroll data that could require additional investigation and evaluation. We also recommend that the school district boards of education be responsible for the approval of final payouts and any "extra pay extra responsibility" (EPER) items.

Views of Responsible Officials

The Division of Accounting will be working with the Districts and other Organizations to provide a policy for when accounts and certain document types should be used.

As for the findings related to the PHRST tables, they are below:

KPMG: Payroll Human Resources Statewide Technology (PHRST) Payroll Tables - The salary tables in PHRST are not being updated in a timely manner to agree to the most recent board approved salary rates for the school districts, therefore, manual adjustments are made to the rates by SD personnel when processing payroll transactions.

PHRST Response:

- PHRST maintains over 70,000 local school district pay rates on Salary Step tables. The pay rates contained within the tables are established through individual school board approval. As such, it is the responsibility of the school districts to supply new rates to PHRST when approved by their respective Boards.

Nonetheless, PHRST is prepared to implement the following to ensure timely updates of the pay tables:

- PHRST will review the recommendations resulting from this audit with school district business managers.
- Each May, PHRST issues a memorandum to school districts requesting updated rates for pay tables. PHRST will now require a school district to verify and sign off on pay rates at the beginning of the fiscal year.
- PHRST will require school districts to re-confirm rates within pay tables quarterly.

Table rates can be overridden at the employee level. There are instances where overriding the Local rate may be appropriate based on Board approved pay tables. For example, when a school district gives an employee experience credit using a different scale than the State pay rates, the Local rate will need to be overridden based on the school district's practice.

However, manual overrides should not be utilized to substitute for correct pay tables. As stated above, if a local pay rate is not accurate due to the table being incorrect; it is the school district's responsibility to provide the correct rate to PHRST. PHRST believes the aforementioned steps will greatly improve the maintenance of pay rates contained in Salary Step tables.

KPMG: PHRST – Payroll Data - We recommend that system edit checks are implemented within the PHRST system to identify non-submission of timesheets to prevent significant delays in time recognition. In addition, we recommend that the State implement checks to identify potential anomalies in the payroll data that could require additional investigation and evaluation.

PHRST Response:

School districts and all other State organizations decide what role the PHRST system timekeeping function plays in their respective payroll processes. Therefore the calculation and submission of hours worked is the primary responsibility of the school district or State organization. PHRST supplies end users with an annual schedule, by pay period, for data entry of payroll information. School districts and all other State organizations are responsible for establishing an internal procedure for submission of time in order to adhere to the published data entry schedule.

PHRST generates reports on a nightly basis throughout the pay period for schools to use to identify anomalies in the school district payroll data. Interpretation and analysis of these reports is covered in PHRST training, which is required for every school district user of the system.

KPMG: Payouts - We also recommend that the school district boards of education be responsible for the approval of final payouts and any "extra pay extra responsibility" (EPER) items.

PHRST Response:

The Division of Accounting (DOA) is responsible for working with all State organizations to ensure effective controls are in place governing all financial activities including the expenditure of funds associated with the State's payroll process. Per DOA policy, organizations are required to have in place and enforce effective internal controls to monitor payroll-related transactions, including final payouts and any "extra pay extra responsibility" (EPER) items. These internal controls must be documented in an Internal Controls Plan on file with DOA's Payroll Compliance Group. Organizations should ensure an appropriate segregation of duties and monitoring throughout the payroll process is in the plan. This includes establishing separate roles within the organization for payroll approval and payroll processing.

The DOA is currently in the process of establishing checklists for Organizations to use to review their internal controls. This will allow them to find any areas that will need to be enhance their process.

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, 2012

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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Delaware Technical and Community College
Terry Campus
Federal Agency: U.S. Department of Education
Reference Number: 12-1*
Program: Student Financial Assistance Cluster (84.007, 84.033, 84.063, 84.268)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Special Tests and Provisions (Borrower Data Transmission and Reconciliation (Direct Loans))

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

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)

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.

* Repeat finding from prior year's audit

Effect:

Direct Loan disbursements may be improperly recorded until April 2012 since a monthly reconciliation was not performed.

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.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: Completed.

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
Federal Agency: U.S. Department of Education
Reference Number: 12-2*
Program: 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)

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.

* Repeat finding from prior year's audit

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	25,007
Payroll Compliance Exception	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

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 semi-annually 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:

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.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: July 2013

Department of Education
Federal Agency: U.S. Department of Education
Reference Number: 12-3
Program: Improving Teacher Quality State Grants (84.367)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs

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

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.

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.

Questioned Costs:

The questioned costs for the Improving Teacher Quality program sample amounted to $60,800.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: September 2013

Department of Education
Federal Agency: U.S. Department of Education, U.S. Department of Agriculture
Reference Number: 12-4*
Program: **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

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

* Repeat finding from prior year's audit

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 3: Federal Awards Findings and Questioned Costs

Year ended June 30, 2012

Title I Program

	# of Items	*Dollar Amount of Items*
Program Expenditures		$46,110,587
Draw Population	25	49,641,721
Sample	8	15,217,206
Control Exceptions	2	5,723,690
Compliance Exceptions	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 Exceptions	2	1,958,077
Compliance Exceptions	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 Exceptions	2	3,952,026
Compliance Exceptions	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 Exceptions	2	2,122,099
Compliance Exceptions	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 Exceptions	2	4,691,901
Compliance Exceptions	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 Exceptions	2	4,273,103
Compliance Exceptions	2	4,273,103

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.

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.

Questioned Costs:

Questioned costs are not determinable.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: October 2011

Department of Education
Colonial School District
Indian River School District
Federal Agency: U.S. Department of Education
Reference Number: 12-5*
Program: 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)

Condition:

The following is considered to be a control exception. There appears to be a lack of independent review of the prepopulated 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.

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

* Repeat finding from prior year's audit

(using the measure most favorable to the LEA) (Section 9521 of ESEA (20 USC 7901); 34 CFR section 299.5).

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.

Questioned Costs:

There are no questioned costs associated with this finding.

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.

Views of Responsible Officials:

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 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.

Anticipated Completion Date: September 2013

Department of Education
Federal Agency: U.S. Department of Education
Reference Number: 12-6[*]
Program: 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)

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.

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.

[*] Repeat finding from prior year's audit

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.

Questioned Costs:

There are no questioned costs associated with this finding.

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.

Views of Responsible Officials:

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 SFY 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.

Anticipated Completion Date: September 2013

Department of Education
Woodbridge School District
Federal Agency: U.S. Department of Education
Reference Number: 12-7*
Program: 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)

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.

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).

* Repeat finding from prior year's audit

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.

Questioned Costs:

There are no questioned costs associated with this finding.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: September 2013

Department of Education
Federal Agency: U.S. Department of Education
Reference Number: 12-8*
Program: 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)

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.

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

* Repeat finding from prior year's audit

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.

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.

Questioned Costs:

Questioned costs are not determinable.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: July 2012

Department of Education
Federal Agency: U.S. Department of Education
Reference Number: 12-9*
Program: 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)

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.

The six school districts' efforts decreased as follows:

	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)

* Repeat finding from prior year's audit

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).

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.

Questioned Costs:

Questioned costs are not determinable.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: August 2013

Department of Education
Federal Agency: U.S. Department of Agriculture
Reference Number: 12-10[*]
Program: Child and Adult Care Food Program (10.558)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Eligibility (Subrecipients)

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.

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).

[*] Repeat finding from prior year's audit

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")).

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.

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.

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 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.

Anticipated Completion Date: September 1, 2013 (1st bullet)
April 1, 2013 (2nd bullet)
June 1, 2013 (3rd bullet)

Department of Health and Social Services
Division of Management Services
Federal Agency: U.S. Department of Health and Human Services
U.S. Department of Agriculture
U.S. Environmental Protection Agency
Reference Number: 12-11*[*]
Program: 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

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.

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[*] Repeat finding from prior year's audit

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 3: Federal Awards Findings and Questioned Costs

Year ended June 30, 2012

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 Exception	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 Exception	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 Exception	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 Exception	14	3,410,194

Supplemental Nutrition Assistance Program

	# of Items	***Dollar Amount of Items***
SEFA Expenditures		$14,259,395
Draw-down Population	146	13,166,976
Sample	38	7,943,061
Control Exceptions	20	5,308,026
Compliance Exception	4	2,139,866

Temporary Assistance for Needy Families

	# of Items	***Dollar Amount of Items***
SEFA Expenditures		$34,813,071
Draw-down Population	90	35,351,666
Sample	24	2,327,631
Control Exceptions	15	12,922,401
Compliance Exception	8	8,043,931

Drinking Water State Revolving Fund

	# of Items	***Dollar Amount of Items***
SEFA Expenditures		$16,526,758
Draw-down Population	164	16,927,421
Sample	43	11,861,209
Control Exceptions	22	6,720,408
Compliance Exception	9	2,211,216

Immunization Cluster

	# of Items	***Dollar Amount of Items***
SEFA Expenditures		$1,772,904
Draw-down Population	48	1,621,203
Sample	13	615,368
Control Exceptions	7	319,276
Compliance Exception	5	204,426

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.

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.

Questioned Costs:

Questioned costs are not determinable as sampling methodology does not support projection of errors.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: February 8, 2012 (when second step of corrective action was put in place).

Department of Health and Social Services
Division of Management Services
Federal Agency: U.S. Department of Health and Human Services
Reference Number: 12-12*
Program: 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)

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.

* Repeat finding from prior year's audit

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

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.

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.

Questioned Costs:

There are no questioned costs associated with this finding.

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.

Views of Responsible Officials:

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

Anticipated Completion Date: January 4, 2013

Department of Health and Social Services
Division of Management Services
Federal Agency: U.S. Department of Health and Human Services
U.S. Department of Agriculture
U.S. Environmental Protection Agency
Reference Number: 12-13
Program: 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)

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 Expenditures 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 Expenditures 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 Expenditures 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 Expenditures 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 Expenditures 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 Expenditures 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 Expenditures Per SEFA	$ 26,646,112		
Federal Cash Drawdowns	$ 24,712,521	$ 1,933,591	7.26%

**This amount excludes non-cash items.*

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.*

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.

Questioned Costs:

Questioned costs are not determinable.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: December 31, 2013 (near the end of the next audit cycle when the reconciliation is complete)

Department of Health and Social Services
Division of Management Services
Federal Agency: U.S. Department of Health and Human Services, U.S. Department of Agriculture
Reference Number: 12-14*[*]
Program: 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

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

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.

[*] Repeat finding from prior year's audit

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).

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.

Questioned Costs:

Questioned costs are not determinable.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: First half of calendar year 2013 (submission of PCAP to DCA).

Department of Health and Social Services
Division of Management Services
Federal Agency: U.S. Department of Agriculture
Reference Number: 12-15
Program: 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)

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.

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.

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.

Questioned Costs:

There are no questioned costs associated with this finding.

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.

Views of Responsible Officials:

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":**

This exception did not impact EBT specific applications and is part of the common testing that is performed for all line of businesses in J.P. Morgan. As stated in the exception, access was subsequently recertified as appropriate. Beginning with the next recertification cycle, all nonstandard access will automatically be revoked if no response is received from managers.

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.*

Anticipated Completion Date: July 1, 2013

Department of Health and Social Services
Division of Medicaid and Medical Assistance
Federal Agency: U.S. Department of Health and Human Services
Reference Number: 12-16*[*]
Program: Medicaid Cluster (93.775, 93.777, S-93.777, 93.778)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Eligibility

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 re-determined 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.

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:

[*] Repeat finding from prior year's audit

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).

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.

Questioned Costs:

There are $17,489.54 of questioned costs associated with the items noted above.

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.

Views of Responsible Officials:

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.

Department of Health and Social Services
Division of Medicaid and Medical Assistance
Federal Agency: U.S. Department of Health and Human Services
Reference Number: 12-17*
Program: State Children's Health Insurance Program (93.767)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Eligibility

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.

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".

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.

* Repeat finding from prior year's audit

Questioned Costs:

There are $2,275 in questioned costs associated with the payment of benefits for the identified exception.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: March 30, 2013

Department of Health and Social Services
Division of Social Services
Federal Agency: U.S. Department of Health and Human Services
Reference Number: 12-18*
Program: Child Care Cluster (93.575, 93.596)
Type of Finding: Noncompliance, Material Weakness
Compliance Requirement(s): Reporting

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.

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.

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.

* Repeat finding from prior year's audit

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.

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)***

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: April 30, 2013

Department of Health and Social Services
Division of Social Services
Federal Agency: U.S. Department of Health and Human Services
Reference Number: 12-19*
Program: Temporary Assistance for Needy Families (93.558, S-93.714)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Reporting

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.

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 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:

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.

* Repeat finding from prior year’s audit

Questioned Costs:

<u>March 31, 2012</u>	
Total Expenditures Per SF-425	$ 40,493,431
Total Expenditures Per FSF	$ 45,959,452
Under-reported Costs	***$ (5,466,021)***

<u>June 30, 2012</u>	
Total Expenditures Per SF-425	$ 56,640,638
Total Expenditures Per FSF	$ 56,713,553
Under-reported Costs	***$ (72,915)***

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: January 2013

Department of Health and Social Services
Division of Social Services
Federal Agency: U.S. Department of Health and Human Services
Reference Number: 12-20
Program: Child Care Cluster (93.575, 93.596)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs (Effort Reporting)

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.

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 semi-annually 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 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.

Questioned Costs:

Costs not properly approved were $27,891.

Recommendation:

We recommend that DSS enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort reports.

Views of Responsible Officials:

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.

Anticipated Completion Date: January 16, 2013

Department of Health and Social Services
Division of Social Services
Federal Agency: U.S. Department of Health and Human Services
Reference Number: 12-21
Program: Child Care Cluster (93.575, 93.596)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Matching, Earmarking

Condition:

Matching

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.

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:

Matching

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.

Earmarking

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)."

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.

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

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: November 14, 2012

Department of Health and Social Services
Division of Public Health
Federal Agency: U.S. Department of Agriculture
Reference Number: 12-22
Program: Special Supplemental Nutrition Program for Women, Infants and Children (10.557)
Type of Finding: Scope Limitation, Material Weakness
Compliance Requirement(s): Cash Management

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.

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.

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.

Questioned Costs:

The impact of the calculation of interest liability if any cannot be determined.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: March 29, 2013

Department of Health and Social Services
Division of Public Health
Federal Agency: U.S. Environmental Protection Agency
Reference Number: 12-23
Program: Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Reporting

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.

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.

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.

Questioned Costs:

There are no questioned costs as the program exceeded the required non-ARRA match.

Recommendation:

We recommend the Division implement policies surrounding retention of supporting documentation for amounts recorded and reported on Federal Financial Reports.

Views of Responsible Officials:

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.

Anticipated Completion Date: May 2013

Department of Health and Social Services
Division of Public Health
Federal Agency: U.S. Environmental Protection Agency
Reference Number: 12-24
Program: 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

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.

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 governmentwide 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.”

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.

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.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: May 1, 2013

Department of Health and Social Services
Division of Public Health
Federal Agency: U.S. Environmental Protection Agency
Reference Number: 12-25
Program: 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)

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.

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.

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.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend the Division enforce review procedures and policies surrounding recording of cash receipts for the DWSRF program.

Views of Responsible Officials:

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.

Anticipated Completion Date: March 29, 2013

Department of Health and Social Services
Division of State Service Centers
Federal Agency: U.S. Department of Health and Human Services
Reference Number: 12-26*
Program: Low-Income Home Energy Assistance Program (93.568)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Reporting, Period of Availability

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:

Interim FFY 2011 SF-425 Report filed 2/28/12

- 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.

FFY 2011 Carryover & Reallotment Report amended 2/27/12

- 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.

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* Repeat finding from prior year's audit

The total expenditures for the program in fiscal year 2012 amounted to $11,978,905.

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.

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.

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.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: December 31, 2012

Department of Health and Social Services
Division of State Service Centers
Federal Agency: U.S. Department of Health and Human Services
Reference Number: 12-27*
Program: Low-Income Home Energy Assistance Program (93.568)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Reporting (Special Reporting)

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.

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* Repeat finding from prior year's audit

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.

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

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.

Questioned Costs:

There are no questioned costs associated with this finding as the data represents applicant data and not expenditures.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: Ongoing.

Department of Health and Social Services
Division of State Service Centers
Federal Agency: U.S. Department of Health and Human Services
Reference Number: 12-28
Program: Low-Income Home Energy Assistance Program (93.568)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Procurement, Suspension and Debarment

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.

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 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 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.

Questioned Costs:

The $18,351 in expenditures were spent on allowable activities, but not properly procured.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: February 27, 2013

Department of Labor
Division of Vocational Rehabilitation
Federal Agency: U.S. Department of Education
Reference Number: 12-29
Program: Vocational Rehabilitation Cluster (84.126, S-84.390)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs (Effort Reporting)

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.

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 semi-annually 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 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.

Questioned Costs:

Questioned salary costs for sample items are $77.02 where the certificate was not completed by the employee.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: Completed.

Department of Labor
Division of Employment & Training
Federal Agency: U.S. Department of Labor
Reference Number: 12-30
Program: 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

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.

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.

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.

Questioned Costs:

There are no questions costs as amounts agreed to underlying general ledger reports (DAR006 Reports) and were for actual expenditures.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: January 31, 2013

Department of Labor
Division of Employment & Training
Federal Agency: U.S. Department of Labor
Reference Number: 12-31
Program: 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 (SEFA)

Condition:

The following is considered to be both a control and compliance exception. We found that $147,881 of FY 12 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.

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."

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.

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.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: March 1, 2013

Department of Labor
Division of Employment & Training
Federal Agency: U.S. Department of Labor
Reference Number: 12-32*
Program: Workforce Improvement Act Cluster (17.258, 17.259, 17.260, S-17.260, 17.278)
Type of Finding: Significant Deficiency
Compliance Requirement(s): Eligibility

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.

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.

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.

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* Repeat finding from prior year's audit

Questioned Costs:

There are no questioned costs as each of the exceptions was correctly determined to be eligible for WIA services.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: Completed.

Department of Labor
Division of Employment & Training
Federal Agency: U.S. Department of Labor
Reference Number: 12-33*
Program: 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

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.

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.

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* Repeat finding from prior year's audit

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.

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.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: Federal reports period ending 12/31/12

Department of Labor
Division of Employment & Training
Reference Number: 12-34
Program: 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)

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.

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.

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.

Questioned Costs:

Questioned costs are $14,995 for expenditures identified and questioned during the monitoring visit for the three subrecipients noted above.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: February 15, 2013

Department of Labor
Division of Employment & Training
Federal Agency: U.S. Department of Labor
Reference Number: 12-35*
Program: 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)

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.

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:

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* Repeat finding from prior year's audit

(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 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.

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.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: February 15, 2013

Department of Labor
Division of Unemployment Insurance
Federal Agency: U.S. Department of Labor
Reference Number: 12-36
Program: Unemployment Insurance (17.225, S-17.225)
Type of Finding: Significant Deficiency
Compliance Requirement(s): Cash Management

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.

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.

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.

Questioned Costs:

There are no questioned costs as amounts agreed to underlying general ledger reports (DAR006 Reports) and were for actual expenditures.

Recommendation:

We recommend that UI enforce its federal drawdown procedures to ensure there is both a preparer and reviewer signature on each drawdown.

Views of Responsible Officials:

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.

Anticipated Completion Date: Completed.

Department of Transportation
Federal Agency: U.S. Department of Transportation
Reference Number: 12-37
Program: Federal Transit Cluster (20.500, 20.507, S-20.507)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Reporting

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.

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.

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.

Questioned Costs:

Questioned costs are not determinable.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date:

This is a joint effort between DelDOT and DOA. DelDOT's participation involves filling the FMA position. DelDOT anticipates filling this position by mid March 2013 but this person will need to be trained. This goal is also dependent upon the resources of Division of Accounting once our FMA is able to meet with them and establish reporting requirements.

DelDOT would like to refrain from entering a date until DOA has input on this item. There may also be an opportunity to add the CFDA number which would be the more optimum solution but may require more time.

Department of Transportation
Federal Agency: U.S. Department of Transportation
Reference Number: 12-38
Program: 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

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.

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.

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.

Questioned Costs:

There are no questioned costs associated with this finding as the payment was supported by an appraisal.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: Training update – immediately, Manual Revision – March 31, 2013

Department of Natural Resources and Environmental Control
Federal Agency: U.S. Department of Interior
Reference Number: 12-39
Program: Fish and Wildlife Cluster (15.605, 15.611)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs, Period of Availability

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.

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.

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.

Questioned Costs:

Questioned costs are $13,405, the dollar value of the two transactions that did not have appropriate supporting documentation.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: March 7, 2013

Department of Natural Resources and Environmental Control
Federal Agency: U.S. Department of Interior
Reference Number: 12-40
Program: Fish and Wildlife Cluster (15.605, 15.611)
Type of Finding: Significant Deficiency
Compliance Requirement(s): Cash Management

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.

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.

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

Questioned Costs:

There are no questioned costs associated with this finding.

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.

Views of Responsible Officials:

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.

Anticipated Completion Date: March 15, 2013

Department of Finance
Federal Agency: U.S. Department of Education
Reference Number: 12-41
Program: 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

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 adminster 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.

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.

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.

Questioned Costs:

There are no questioned costs associated with this finding.

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 bi-annual 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: Kris Knight, Director of Division of Accounting

Agency Contact Phone Number: (302) 672-5501

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.

Anticipated Completion Date: FY 2013

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, 2012

Matrix of Findings by Federal Agency

Finding Prefix	USDA 10	DOI 15	DOL 17	DOT 20	EPA 66	ED 84	HHS 93
12-1						X	
12-2						X	
12-3						X	
12-4	X					X	
12-5						X	
12-6						X	
12-7						X	
12-8						X	
12-9						X	
12-10	X						
12-11	X				X		X
12-12							X
12-13	X				X		X
12-14	X						X
12-15	X						
12-16							X
12-17							X
12-18							X
12-19							X
12-20							X
12-21							X
12-22	X						
12-23					X		
12-24					X		
12-25					X		
12-26							X
12-27							X
12-28							X
12-29						X	
12-30			X				
12-31			X				
12-32			X				
12-33			X				

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Matrix of Findings by Federal Agency

Year ended June 30, 2012

Finding	USDA	DOI	DOL	DOT	EPA	ED	HHS
Prefix	**10**	**15**	**17**	**20**	**66**	**84**	**93**
12-34			X				
12-35			X				
12-36			X				
12-37				X			
12-38				X			
12-39		X					
12-40		X					
12-41						X	

STATE OF DELAWARE

Summary Status of Prior Year Findings

Year ended June 30, 2012

Agency	**Delaware Technical and Community College** **Terry Campus**
Fiscal Year	**2011**
Reference Number	**11-DTCC-01**
Related Prior Year Findings	**Yes**
Program Name (CFDA No.)	**Student Financial Assistance Cluster (84.007, 84.033, 84.063, 84.268)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Borrower Data Transmission and Reconciliation (Direct Loans)**
Criteria	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 an 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	In connection with our testwork over Direct Loan program, we noted that Terry campus had not been consistently 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) during the year ended June 30, 2011.
Cause	This is the first year of Direct Loan program and the campus was not consistently performing a monthly reconciliation of the SAS data file to the campus' records to ensure all Direct Loan information had been properly recorded.
Effect	While we tested a sample of 40 Direct Loans disbursement amounts between the SAS date file and the campus' records without any exceptions, the required monthly reconciliation would ensure all Direct Loan amounts had been properly recorded.
Recommendation	We recommend that the College implement a process 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.
Agency Contact Name	Jennifer Grunden, Terry Campus, Student Financial Aid Officer
Agency Contact Phone Number	(302) 857-1042
Corrective Action Plan	After investigating why one of the two monthly SAS 2011-12/2012-13 files was not received by Delaware Technical Community College’s Terry Campus, campus financial aid office staff worked with the Common Origination and Disbursement (COD) office to ensure an electronic COD “adhoc” report was obtained. It has been determined that the yearly rollover of data from 2011-12 to 2012-13 had already take place when the 2011-12 reporting parameters were updated so therefore the rollover reporting parameters were not correct. The missing monthly file was named “DSLF”. This “adhoc” report along with the existing records/files from COD will enable Terry Campus to complete performance and maintain evidence of monthly SAS reconciliations. The campus is on schedule to receive both monthly files from COD effective April 2012. The Terry Campus Financial Aid Officer is currently training/working with other Delaware Tech campus locations’ financial aid staff to complete and/or document year-to-date reconciliations for 2012-13 while establishing best practices. With the April 2012 files from COD, the campus Financial Aid Officer will develop an evidence-based monthly reconciliation process. The campus Financial Aid Officer will be performing the monthly SAS reconciliations the week after the files are received from COD. Both electronic and paper SAS records/reconciliations will be retained to provide evidence that reconciliations are performed monthly.
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, 2012

Agency	**Department of Education** **Brandywine School District** **Christina School District** **Delmar School District** **Red Clay Consolidated School District** **Smyrna School District** **Woodbridge School District**
Fiscal Year	**2011**
Reference Number	**11-ED-01**
Related Prior Year Findings	**10-ED-02**
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	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	**Department of Education** Based on a sample of 20 payroll expenditures totaling \$60,001, four employees totaling \$4,983 charged to the Improving Teacher Quality program, four employees totaling \$4,375 charged to the Special Education program, and twelve employees totaling \$50,643 charged to the Race To The Top program were missing time and effort reports. Total salaries and benefits charged by the Department of Education to major federal programs amounted to \$110,000. **Brandywine School District** Based on a sample of 26 payroll expenditures totaling \$54,020, five employees totaling \$8,819 charged to the Title I program, five employees totaling \$9,794 charged to the Improving Teacher Quality program, five employees totaling \$5,782 charged to the Special Education program, and six employees totaling \$22,364 charged to the Race To The Top program were missing time and effort reports. Total salaries and benefits charged by Brandywine School District to major federal programs amounted to \$308,000. **Christina School District** Based on a sample of 23 payroll expenditures totaling \$30,805, two employees totaling \$6,381 charged to the Improving Teacher Quality program, one employee totaling \$742 charged to the Special Education program, and one employee totaling \$2,423 charged to the Race To The Top program were missing time and effort reports. Total salaries and benefits charged by Christina School District to major federal programs amounted to \$401,000. **Delmar School District** Based on a sample of 22 payroll expenditures totaling \$7,567, two employees totaling \$461 charged to the Title I program were missing time and effort reports. The time and effort report for one employee totaling \$716 charged to the Special Education program percentage did not agree to the actual amount charged. Per the time and effort report, 20% of the employee's time should have been charged to the Special Education
Cause	The State Department of Education and the school districts cited above did not maintain proper and timely effort reporting for employees that were partially funded by federal programs, did not obtain semi-annual certifications for employees charged 100% to federal programs, completed time and effort reports before distribution of actual activity, or based their charges to federal programs on estimates and not actual time and effort.
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 $16 undercharge to the Title I program, a $1,406 undercharge to the Improving Teacher Quality program and a $537 overcharge to the Special Education program. The following charges were missing time and effort reports: $9,350 for the Title I program, $26,174 for the Improving Teacher Quality program, $21,893 for the Special Education program, and $78,411 for the Race-to-the-Top program. A charge of $835 for the Title I program was based on a time and effort report completed before distribution of actual activity. In addition, a charge of $2,830 for the Title I program was based on an annual time and effort reports, not semi-annual certifications.
Agency Contact Name	Theresa Vendrzyk Kough/Emily Falcon
Agency Contact Phone Number	(302) 857-3390/(302) 735-4040
Corrective Action Plan	Desk Audit Checklist was created which incorporates Time and Effort reporting. All LEAs (Local Educational Agencies) will be checked for compliance. The DOE Financial Reform Resources will also institute updated procedures to ensure that all DOE staff are completing Time and Effort reporting as appropriate. Additional guidance will be issued to LEAs to ensure that they understand the requirements for compliance.
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	Time and Effort reporting continues to be a focus of training sessions and desk audits. Based upon prior year reviews, we anticipate getting the Department and all School Districts in full compliance within the next fiscal year.
Anticipated Completion Date (if not Fully corrected).	June 30, 2013

Agency	**Smyrna School District**
Fiscal Year	**2011**
Reference Number	**11-ED-02**
Related Prior Year Findings	**10-ED-01**
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)**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Allowable Costs (Indirect Costs)**
Criteria	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	Based on a sample of twenty four indirect cost transactions, one indirect charge by the Smyrna school district for the Special Education program of $50,166 was based on a prior year indirect cost rate rather than the current year's indirect cost rate. The actual indirect cost charged was actually lower than the amount that may have been charged for that period.
Cause	Due to a lack of adequate management review, costs charged to the federal programs were based on a prior year indirect cost rate instead of the indirect cost rate for the current year.
Effect	The indirect costs charged were not based on the current period's approved indirect cost rate.
Recommendation	We recommend that the school district implement policies and procedures to ensure that indirect costs are based upon actual costs incurred for the fiscal year and the current indirect cost rate and ensure that appropriate supporting documentation is maintained for such costs.
Questioned Costs	There are no questioned costs for this finding since the indirect costs being charged were understated.
Agency Contact Name	Jerry Gallagher
Agency Contact Phone Number	(302) 659-4312
Corrective Action Plan	The district will modify its past practice and will draw down indirect costs at the end of each fiscal year using expenses incurred and the indirect cost rate approved for that year.
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).	

Agency	**Department of Education**
Fiscal Year	**2011**
Reference Number	**11-ED-03**
Related Prior Year Findings	**N/A**
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)**
Type of Finding	**Scope Limitation, Material Weakness**
Compliance Requirement(s)	**Cash Management**
Criteria	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 Department of Education's draw down information could not be directly traced back to First State Financials (FSF), the State's general ledger. While spreadsheet files of the original draw down queries were maintained by DOE as supporting documentation for the federal draw downs selected for audit test work, the information on these files could not readily be traced back to FSF. We were unable to determine whether the federal cash draws were in compliance with applicable funding techniques or Subpart B requirements because we could not validate the information used to perform the draws. In particular, we noted that a drawdown of $7,239,517 was made in December 2010 for the Race-to-the-Top Incentive Grants, but the program's expenditures through the November 30, 2010 only amounted to approximately $2,100,000.
Cause	DOE utilizes a system query to obtain the required information; however, we were unable to trace the original query results per the spreadsheet files back to FSF.
Effect	We were unable to determine whether the DOE's drawdowns for the federal programs 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 expenditure was recorded.
Recommendation	We recommend that DOE enhance its federal draw down process to ensure there is an adequate level of support for determining that drawdowns are in accordance with each programs compliance requirements. The support may include illustrating how the drawdown information can be traced to FSF.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Emily Falcon/Eulinda DiPietro
Agency Contact Phone Number	(302) 735-4040
Corrective Action Plan	The DOE is in the process of revising its procedures for managing federal draws. These procedures will clearly outline the process to ensure that proper documentation is maintained and will also incorporate more oversight to ensure compliance with the new procedures.

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	After implementation of the revised procedures for managing federal draws which included the utilization of the A/R Pending reports, the finding was corrected in November of 2011.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Education** **School Districts**
Fiscal Year	**2011**
Reference Number	**11-ED-04**
Related Prior Year Findings	**10-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	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% 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 expenditures for community services, capital outlay, debt service and supplementary expenses as a result of a Presidentially declared disaster and (b) any expenditures 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% 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).

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Condition	Based on a review of the maintenance of effort (MOE) calculations done for the overall federal programs by the eight school districts we visited, we noted the following items: • The MOE calculation included in the LEA Consolidated Grant Application for the Brandywine, Colonial and NCC Vo-Tech School Districts included 2008 and 2007 financial information instead of 2009 and 2008 financial information. • The MOE calculation for the Woodbridge School District was excluded from its LEA Consolidated Grant Application.
Cause	The State Department of Education or school districts have not developed procedures to ensure the prepopulated data incorporated into the LEAs MOE calculation is accurate.
Effect	Based on recalculations, the items noted above did not have an impact on the school districts meeting their MOE requirements; however, if such calculations are not monitored closely any shortfalls may not be identified and addressed on a timely basis.
Recommendation	We 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	Emily Falcon/Theresa Vendrzyk Kough
Agency Contact Phone Number	(302) 735-4040/(302) 857-3390
Corrective Action Plan	The MOE calculations have been automated to ensure accuracy. All data is now pre-populated from the DOE data warehouse. LEAs must coordinate with DOE to make changes to the data as calculated. DOE Financial Reform Resources staff will ensure that the MOE calculations that are included within the Consolidated Grant Applications are being pulled for the proper fiscal years.
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	Unfortunately the MOE calculations for some school districts continue to pull from the wrong fiscal years, but now that the finding can be appropriately addressed for the succeeding fiscal year, it should be corrected for the succeeding Consolidated Grant Applications.
Anticipated Completion Date (if not Fully corrected).	June 30, 2013

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Education**
Fiscal Year	**2011**
Reference Number	**11-ED-05**
Related Prior Year Findings	**10-ED-06**
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)	**Reporting**
Criteria	The U.S. Department of Education (ED) requires that the State Educational Agency (SEA) file various reports related to its oversight and compliance over the federal funds it receives from the ED. The following reports are required by the ED: *State Per Pupil Expenditure (SPPE) Data* – Each year, a SEA must submit its average State per pupil expenditure (SPPE) data to the National Center for Education Statistics. These SPPE data are used by the ED to make allocations under several Elementary and Secondary Education Act of 1965 (ESEA) programs, including Title I, Part A. *Report of Children and Youth with Disabilities Receiving Special Education Under Part B of the Individuals with Disabilities Act, as amended* – Each SEA is required to report to the Secretary an unduplicated count of children with disabilities receiving special education and related services. A SEA must annually review the progress of each Local Educational Agency (LEA) that receives funds under subpart 2 of Part A of Title I to determine whether the LEA made adequate yearly progress as defined by the State. Each SEA must report annually to the Secretary, and make certain information widely available within the State. In addition, the SEA must prepare and disseminate an annual State report card that contains, among other things, information on the performance of LEAs regarding adequate yearly progress. The SEA must ensure that each LEA collects the data necessary to prepare its annual report card.

Condition	In connection with our review of the Delaware Department of Education's (DOE) compliance requirements applicable to its reporting to the ED, we performed a review of the DOE's information technology (IT) general controls over the eSchoolPlus systems and the Delaware Student Information System (DELSIS). Based on our review, we noted that in connection with the Department's *Change Management – Limited System Development Lifecycle Procedure Guidance*, the DOE IT department implements internally developed applications and purchased software applications without aid of an approved policy or procedures for project management.
Cause	The DOE IT department had not formalized policies and procedures regarding internally developed or purchased software until the last quarter of fiscal year 2011.
Effect	The lack of formal policies and procedures regarding Change Management could result in future problems over data integrity.
Recommendation	As recommended in the prior year, the DOE IT department developed and implemented formal policies and procedures to address Change Management.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Robert E. Czeizinger
Agency Contact Phone Number	(302) 735-4140
Corrective Action Plan	*Change Management – Limited System Development Lifecycle Procedure Guidance* - The leadership of the Technology Resources and Data Development Group developed a written policy designed to strengthen our guidance regarding System Development and Lifecycle Procedures.
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.

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Education**
Fiscal Year	**2011**
Reference Number	**11-ED-06**
Related Prior Year Findings	**N/A**
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 (Separate Accountability for ARRA Funding)**
Criteria	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	In connection with our review of the ARRA expenditures for the programs being testing and reconciling such amounts to the Department of Education’s general ledger as well as the Federal Recovery Act website, we noted that some of the Department of Education’s ARRA funds were incorrectly classified to the wrong CFDA number. For the year ended June 30, 2011, we noted that $8,314,932 and $956,431 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.
Cause	A portion of the ARRA funds were incorrectly classified to the wrong CFDA numbers within FSF.
Effect	The State’s SEFA needs to be adjusted to properly reflect the proper amount of ARRA expenditures to the correct CFDA number.

Recommendation	We recommend that the State's SEFA be reconciled back to FSF on an annual basis to ensure all ARRA 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) 735-4040
Corrective Action Plan	We will coordinate with the Division of Accounting to obtain the CFDA ARRA amounts that will be included on the SEFA for our programs. We will ensure such amounts are reconciled to the general ledger and communicate any adjustments necessary to make the SEFA accurate.
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	Further communication and processes need to be made to fully correct this finding.
Anticipated Completion Date (if not Fully corrected).	June 30, 2013

Agency	**Department of Education** **Woodbridge School District**
Fiscal Year	**2011**
Reference Number	**11-ED-07**
Related Prior Year Findings	**10-ED-08**
Program Name (CFDA No.)	**Title I Grants to Local Educational Agencies (84.010, S-84.389)** **Improving Teacher Quality State Grants (84.367)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Special Test and Provisions (Private School Children)**
Criteria	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)). Title I, Part A funds must be allocated to each participating public school attendance area on the basis of the total number of children from low-income families residing in that area. In calculating the total number of children from low-income families, an LEA must include children from low-income families who attend private schools. An LEA must use the portion of Title I, Part A funds attributable to private school children from low-income families included in the calculation to provide services to eligible private school children. For example, if $100,000 of Title I, Part A funds are allocated based on 100 children from low-income families, 25 of whom are private school children, $25,000 of the $100,000 must be expended to provide equitable services to eligible private school children.
Condition	
Cause	School district personnel were not fully aware of the federal requirements to perform a per pupil calculation to ensure federal funds were properly allocated between children from low-income families who attended either public or private schools.

Effect	There is no proof of an equitable allocation of funds for services between children from low-income families who attend either public or private schools.
Recommendation	We recommend that the school district personnel be properly trained by the State Department of Education to ensure the districts fulfill the federal requirements pertaining to the participation of services for private school children from low-income families.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Theresa Vendrzyk Kough
Agency Contact Phone Number	(302) 857-3390
Corrective Action Plan	As part of the United States Department of Education (ED) monitoring process, responses and corrective actions were taken for the requirement of the participation of private school children in federal programs. The ED's Student Achievement and School Accountability (SASA) Office issued a letter in December of 2010 stating that all findings have been resolved.
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).	

Agency	**Department of Education**
Fiscal Year	**2011**
Reference Number	**11-ED-08**
Related Prior Year Findings	**10-ED-09**
Program Name (CFDA No.)	**Title I Grants to Local Educational Agencies (84.010)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Special Test and Provisions (Title I Monitoring Report)**
Criteria	**Participation of Private School Children** 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)). Title I, Part A funds must be allocated to each participating public school attendance area on the basis of the total number of children from low-income families residing in that area. In calculating the total number of children from low-income families, an LEA must include children from low-income families who attend private schools. An LEA must use the portion of Title I, Part A funds attributable to private school children from low-income families included in the calculation to provide services to eligible private school children. For example, if $100,000 of Title I, Part A funds are allocated based on 100 children from low-income families, 25 of whom are private school children, $25,000 of the $100,000 must be expended to provide equitable services to eligible private school children. If an LEA reserves funds off the top of its Title I, Part A allocation to provide instructional and related activities for public school students at the district level, the LEA must also provide from those funds, as applicable, equitable services to eligible private school students. From applicable funds reserved for parent involvement and professional development, an LEA must ensure that teachers and families of participating private school children have an equitable opportunity to participate in professional development and parent involvement activities, respectively. The amount of funds available to provide these services must be proportionate to the number of private school children from low-income families residing in participating public school attendance areas (Sections 1113(c) and 1120 of ESEA (20 USC 6313(c) and 6320); 34 CFR Sections 200.62 through 200.67 and 200.77 through

	200.78) **Comparability** An LEA may receive funds under Title I, Part A only if State and local funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving Title I, Part A funds. An LEA is considered to have met the statutory comparability requirements if it filed with the State Educational Agency (SEA) a written assurance that such LEA has implemented (1) an LEA-wide salary schedule; (2) a policy to ensure equivalence among schools in teachers, administrators, and other staff; and (3) a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies. An LEA may also use other measures determine comparability, such as comparing the average number of students per instructional staff or the average staff salary per student in each school receiving Title I, Part A or MEP funds with those in schools that do not receive Title I, Part A or MEP funds. If all schools are served by Title I, Part A or MEP, an LEA must use State and local funds to provide services that, taken as a whole, are substantially comparable in each school. Determinations may be made on either a district-wide or grade-span basis. An LEA may exclude schools with fewer than 100 students from its comparability determinations. The comparability requirement does not apply to an LEA that has only one school for each grade span. An LEA may exclude from determinations of compliance with this requirement State and local funds expended for (1) bilingual education for children with limited English proficiency (LEP); and (2) the excess costs of providing services to children with disabilities as determined by the LEA. The LEA may also exclude supplemental State or local funds for programs that meet the intent and purposes of Title I, Part A or MEP (Sections 1120A(c)-(d) and 1304(c)(2) of ESEA (20 USC 6321(c)-(d) and 6394(c)(2)); 34 CFR Sections 200.79 and 200.88). Each LEA must develop procedures for complying with the comparability requirements and implement the procedures annually. The LEA must maintain records that are updated biennially documenting compliance with the comparability requirements. The SEA, however, is ultimately responsible for ensuring that LEAs remain in compliance with the comparability requirement (Section 1120A(c) of ESEA (20 USC 6321(c)). **Highly Qualified Paraprofessionals** Qualifications for paraprofessionals support by Title I, Part A funds are as follows: a. An LEA must ensure that each paraprofessional who is hired by the LEA after January 8, 2002 and who works in a program supported with Title I, Part A funds meets specific qualification requirements. Paraprofessionals who work in a program supported with Title I, Part A funds and who were hired by an LEA prior to January 8, 2002, had to meet these requirements by the end of the 2005-2006 school year. The term “paraprofessional” means an individual who provides instructional support; it does not include individuals who have only noninstructional duties (such as providing technical support for computers, providing personal care services, or performing clerical duties). A paraprofessional works in a program supported with Title I, Part A funds if the paraprofessional is paid with Title I, Part A funds in a Title I targeted assistance school or works as a paraprofessional in a schoolwide

	program school. b. A paraprofessional must hold a high-school diploma or its recognized equivalent and meet one of the following requirements: (1) Have completed at least two years of study at an institution of higher education. (2) Have obtained an associate's or higher degree. (3) Have met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, reading/language arts, writing, and mathematics, or reading readiness, writing readiness, and mathematics readiness. c. A paraprofessional who is proficient in English and a language other than English and acts as a translator or who has duties that consist solely of conducting parental involvement activities need only have a high-school diploma or its recognized equivalent. (Title I, Section 1119(c)-(f) of ESEA (20 USC 6319(c)-(f)); 34 CFR Section 200.58)
Condition	During fiscal year 2010, the U. S. Department of Education's (ED) Student Achievement and School Accountability (SASA) office reviewed the Delaware Department of Education's (DOE) administration of the Title I programs authorized by the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act (NCLB). Based on our review of the monitoring report (Title I Monitoring Report) issued on November 5, 2010, the following findings below were applicable to the compliance requirements applicable to the Title I Grant to Local Educational Agencies as described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* for the year ended June 30, 2011. Based on our review of a letter from the ED SASA office dated December 2010, we noted that the findings had been resolved as of December 2010. **Participation of Private School Children** The Delaware SEA had not ensured that its LEAs met requirements regarding the selection of private school students for participation in the Title I program. **Comparability** The Delaware SEA had not ensured that its LEAs comply with the comparability requirement. The Delaware SEA staff indicated that, since the State has a policy to ensure comparability in staffing, it was only necessary for LEAs to indicate that the State had established policies to ensure equivalence among schools in staffing. **Highly Qualified Paraprofessionals** The Delaware SEA had not ensured that its LEAs complied with the hiring requirements for instructional paraprofessionals working in Title I schools.
Cause	The DOE failed to ensure full compliance with the above special tests and provisions for the Title I program.

Effect	Based on the Title I Monitoring Report, the DOE was not fully compliant with the special tests and provisions required by the OMB Circular A-133 during the entire year ended June 30, 2011.
Recommendation	The DOE implemented corrective action during the fiscal year ended June 30, 2011 and we recommend that DOE continue to monitor the implementation of those corrective action plans for LEAs on a periodic basis.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Theresa Vendrzyk Kough
Agency Contact Phone Number	(302) 857-3390
Corrective Action Plan	As part of the ED monitoring process, responses and corrective actions were taken in each of the cited areas. ED's SASA office issued a letter in December of 2010 stating that all findings have been resolved.
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).	

Agency	**Department of Education**
Fiscal Year	**2011**
Reference Number	**11-ED-09**
Related Prior Year Findings	**10-ED-10**
Program Name (CFDA No.)	**Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)**
Type of Finding	**Scope Limitation, Material Weakness**
Compliance Requirement(s)	**Level of Effort (Maintenance of Effort)**
Criteria	**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	We were unable to obtain a copy of the State's MOE calculation for the year ended June 30, 2011. In addition, based on a review of the LEA MOE calculations (Excess Cost for IDEA template) included in 2011 LEAs Consolidated Grant Applications for each of the eight school districts selected for testing, we noted that the State Department of Education incorporated a consistent methodology for the calculation of the Special Education's maintenance of effort. However, we were not able to trace the amounts used under the new methodology back to the school districts' annual financial statements or FSF, the State's general ledger.
Cause	It is our understanding that the State's MOE calculation may have been completed, but the completed MOE calculation could not be located/provided as a result of personnel turnover. The MoE calculations included within the 2011 LEAs Consolidated Grant Applications were prepopulated for each LEA, but the LEAs were unable to illustrate how those amounts included on the MOE calculations reconciled to FSF.
Effect	The State or the school districts may not have met their Special Education MOE requirements.
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 ensure that the amounts included within each LEA's MOE calculation can be readily reconciled to FSF for each year provided. In addition, the DOE should ensure any LEA MOE calculations that do not show increases have been properly investigated and supported.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Emily Falcon

Agency Contact Phone Number	(302) 735-4040
Corrective Action Plan	Procedures will be instituted to ensure that all MOE calculations are maintained in a central repository to insulate them from staff turnover issues. Additionally, DOE has taken steps to automate the MOE calculations for LEAs to ensure consistent and accurate calculations. DOE will provide additional guidance for the LEAs on these calculations to ensure their staff is knowledgeable about the MOE template and can assist in detecting any errors or inconsistencies in the calculations.
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	Further monitoring procedures still need to be implemented on the MOE calculations at both the SEA and LEA level to ensure all calculations are accurate.
Anticipated Completion Date (if not Fully corrected).	June 30, 2013

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Education**
Fiscal Year	**2011**
Reference Number	**11-ED-10**
Related Prior Year Findings	**10-ED-11**
Program Name (CFDA No.)	**Child and Adult Care Food Program (10.558)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Eligibility (Subrecipients)**
Criteria	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% of the enrolled children or 25% of the licensed capacity, whichever is less, are funded under Title XX of the Social Security Act; or (2) at least 25% 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% 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% 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	Based on our review of the applications of thirty sub recipients, we noted the following items: • The annual applications do not contain all the required components of the performance standards. The standards require that the organizations have documentation supporting 1) the organizations need and recruiting and 2) fiscal resources and financial history. In addition the renewing organization should 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. Furthermore, renewing organizations should have documentation of fiscal accountability which includes a financial system with management controls in writing and accounting records. • For twenty seven of the thirty organizations application files, written notification, of approval or disapproval of the application within thirty calendar days of receipt of a complete application could not be observed.
Cause	Standard applications have not been reviewed recently to ensure all federal regulations have been incorporated.
Effect	The applications do not contain all the components required by federal regulations.
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	The condition regarding the annual applications that do not contain explicit language ensuring that the subrecipients are not ineligible for publicly funded programs was corrected October 2010. The required elements were added to the new nutrition software program application. The Delaware Nutrition Accountability and Reporting System (DENARS) has an online application component that all sponsors are required to complete prior to each fiscal year. The new system was implemented in October 2010 for CACFP. The condition regarding the annual applications that do not contain all the required components of the performance standards was corrected in October 2010. The required elements were added to the DENARS online application that all sponsors must complete annually. Additionally, these areas are covered in the administrative reviews conducted for

	all renewing sponsors. All new applicants are required to submit the balance sheet from their most recent audit or 2 months of checking account statements for review. This information is provided at the training. We believe this combination of modifications to forms and processes fully satisfies all issues outlined in this condition. In response to the condition regarding the outside employment policies, for the past two application approval cycles (2009/10 and 2010/11), the state agency has reviewed all renewing sponsors' file documents to ensure that Outside Employment Policy Statements and all other required documents were in the files. We included these items on the annual file review checklist and have this documentation to support our position that all files contain the required documents
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 new system improvements are made and the subrecipients are updated during fiscal year 2013, all the eligibility requirements will be properly captured.
Anticipated Completion Date (if not Fully corrected).	June 30, 2013

Agency	**Department of Education**
Fiscal Year	**2011**
Reference Number	**11-ED-11**
Related Prior Year Findings	**10-ED-12**
Program Name (CFDA No.)	**Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)** **Child and Adult Care Food Program (10.558)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Subrecipient Monitoring**
Criteria	A pass-through entity is responsible for (1) ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six 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. (OMB Circular A-133 Compliance Supplement, Part 3, Section M) A pass-through entity is responsible for evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations. (OMB Circular A-133 Compliance Supplement, Part 3, Section M).
Condition	Based on our review of the program's subrecipient monitoring, we noted that while the Delaware Department of Education ensures that its applications for both Child Nutrition and Child and Adult Care Food Program include the need for subrecipients expending $500,000 or more in federal awards have an audit, there is no mechanism in place to track whether any such subrecipients have confirmed that need for an OMB Circular A-133 audit and, in turn, whether the DOE should be following up on any audits performed. During the year ended June 30, 2011, the Child Nutrition program provided approximately $2.1 million to subrecipients and the Child and Adult Care Food program provided approximately $12.8 million to subrecipients.

Cause	The DOE has not developed a procedure to ensure it monitors any subrecipients who may be required to meet the audit requirements of OMB Circular A-133 and ensure its on-site visits on its subrecipients meet the required criteria.
Effect	The DOE does not appear to be fulfilling all of its subrecipient monitoring responsibilities.
Recommendation	We recommend that the DOE develop procedures to ensure it adequately tracks and monitors possible audits required for its subrecipients.
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	The newly implemented (October 2010) CACFP portion of the DENARS application system addresses the conditions listed above. The application allows the DOE to search any sponsor to determine their compliance with the A-133 audit requirement certification statement. The application system also allows the DOE to track the current status of each sponsor's compliance. Additionally, DOE Nutrition Programs is currently developing a *program processes* document that will provide guidance on all activities of the program. The first three completed processes relate to A-133, including the responsibility of the agency to collect, review, and monitor audits.
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).	

Agency	**Department of Education**
Fiscal Year	**2011**
Reference Number	**11-ED-12**
Related Prior Year Findings	**No**
Program Name (CFDA No.)	**Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Subrecipient Monitoring (Management Evaluation Report)**
Criteria	The following citations are applicable to the CRE that were performed: 210.18(k) *Corrective Action.* Corrective action is required for any violation under either the critical or general areas of the review. Corrective action shall be applied to all schools in the school food authority, as appropriate, to ensure that previously deficient practices and procedures are revised system-wide. 210.18(k)(2) *Documented corrective action.* Documented corrective action is required for any degree of violation of general or critical areas identified in an administrative review or on any follow-up review. Documented corrective action may be provided at the time of the review; however, it shall be postmarked or submitted to the State agency no later than 30 days from the deadline for completion of each required corrective action, as specified under paragraph (j) of this section or as otherwise extended by the State agency under paragraph (k)(1) of this section. 210.18(l) *Withholding payment.* At a minimum, the State agency shall withhold Program payments to a school food authority as follows: (1) *Cause.* (i) The State agency shall withhold all Program payments to a school food authority if documented corrective action for critical area violation(s) which exceed the review threshold(s) is not provided within the deadlines specified in paragraph (k)(2) of this section; and/or (l)(1)(iv) The State agency may withhold payments at its discretion, if the State agency finds that documented corrective action is not provided within the deadlines specified in paragraph (k)(2) of this section, that corrective action is not complete or that corrective action was not taken as specified in the documented corrective action for a general area violation or for a critical area violation which did not exceed the review threshold. (2) *Duration.* In all cases, Program payments shall be withheld until such time as corrective action is completed, and documented corrective action is received and deemed acceptable by the State agency or as

	otherwise specified in paragraph (i)(5) of this section.
Condition	Based on our review of the Management Evaluation report issued on August 10, 2010 by the Food and Nutrition Service (FNS), we noted that the finding on the Coordinated Review Effort (CRE) performed on the DoE's subrecipients was applicable to the compliance requirements applicable to the Child Nutrition Cluster as described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance* *Supplement* for the year ended June 30, 2011. The FNS noted that based on a sample of reviews, the following were disclosed: • The required forms for several of the reviews evaluated were not completed; specifically, forms SFA-1 and SFA-2 which are designed to determine if review thresholds are exceeded by the SFA, and forms FA 1 and FA 6 which are used to determine fiscal action for program violations. • Corrective action plans were not submitted and/or were incomplete (DAPI, and Polytech) • A claim for one sponsor was assessed and payment was collected prior to the completion of the third follow-up review and approval of corrective action. (Family Foundations) • The guidelines for withholding reimbursement are not properly applied.
Cause	The DOE is missing certain criteria for its CREs of its subrecipients.
Effect	The DOE does not appear to be fulfilling all of its subrecipient monitoring responsibilities.
Recommendation	While in general, the SA has done a good job monitoring local level operations, the SA must strengthen its procedures for administrative reviews to ensure that the issues discussed above are corrected. Since there is only two field staff to accomplish current monitoring activities in addition to other administrative work, a second level review would support this effort. Another alternative is to consider hiring a review coordinator that would assist the field agents in the areas of fiscal action and follow-up reviews. To ensure corrective action plans are completed within the timeframes specified by your office, the SA should consider adding a column to the tickler file, for both CRE and SMI reviews, to record the date when corrective action plans are due date and when they are received. When a SFA fails to take or respond to corrective action by the deadline and a written extension was not requested, the SA must follow the guidelines for withholding Program payments as outlined in 210.18(l)(1)–(2).
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	The State Agency has taken the following actions to address this finding: I. The SA will continue to support the field agents with their capacity to accomplish the required monitoring activities. We are aware that the review schedule will be changing from a five-year to three-year cycle and we are planning accordingly to meet this requirement. II. Our administrative review findings procedures have been enhanced by the development of a *tickler file* system. Through the use of tracking forms for CRE and SMI Reviews, we have enhanced our procedures that will ensure that our reviews are consistently followed. These forms are currently on our shared intranet drive to facilitate access by the entire SNP team to track reviews and required follow-up action.
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).	

Agency	**Department of Education**
Fiscal Year	**2011**
Reference Number	**11-ED-13**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Reporting**
Criteria	*FNS-777, Financial Status Report (OMB No. 0584-0067)* – This report replaces the SF-269 and captures the same information: the State agency's cumulative outlays (expenditures) and unliquidated obligations of Federal funds for the programs and program components that comprise the Child Nutrition Cluster. FNS uses the data captured by this report to monitor State agencies' program costs and cash draws (7 CFR Sections 210.20(a)(2), 215.11(c)(2), 220.13(b)(2), and 225.8(b)). Two different versions of this form are made available for use by State agencies: one for reporting on Child Nutrition Program funds, and the other for reporting the status of the State agency's SAE grant. This enables the State agency to separately report on its SAE grant which, unlike the program funds, is a 2-year grant.
Condition	Based on our review of the four quarterly Financial Status Reports (FSRs) for the Child Nutrition Cluster, we noted that the cumulative fiscal year 2011 outlays on the FSRs amounted to $34,141,296 compared to the general ledger amount for the same period which amounted $35,838,595. The difference of $1,697,229 could not be reconciled.
Cause	Because of turnover and miscoding of the amounts expended, the Child Nutrition Cluster cumulative outlays reported on the FSRs did not readily agree to FSF.
Effect	The amounts reported on the FSR submissions did not reconcile to the FSF and there was no support that reconciled the differences.
Recommendation	We recommend that DOE develop procedures to ensure all reports submitted to the Federal Government are reconciled to FSF prior to submission.

Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Cathy Wolfe
Agency Contact Phone Number	(302) 735-4040
Corrective Action Plan	Because of the nature of these programs, frequent revisions to expenditures are expected. These items could be from late claim submissions, MRE reviews yielding over or underpayment of sponsors or possibly recodes. In order to ensure that the data used to complete the FSRs is readily available and can be reconciled, our procedures will be updated to require that staff print screen shots of FSF balances and other pertinent data used. This will ensure that the Department can document that the FSRs reconcile with the FSF 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	Completed.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Health and Social Services**
Fiscal Year	**2011**
Reference Number	**11-DHSS-01**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Supplemental Nutritional Assistance Program Cluster (10.551, 10.561, S-10.561)** **Temporary Assistance for Needy Families (93.558, S-93.714)** **Child Care Cluster (93.596, 93.575, S-93.713)** **State Children's Health Insurance Program (93.767)** **Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)** **Child Support Enforcement (93.563, S-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, Material Weakness**
Compliance Requirement(s)	**Cash Management**
Criteria	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). We note that of the major federal programs identified above, all but the Capitalization Grants for Drinking Water State Revolving Funds and Immunization Cluster are subject to the CMIA. These 2 federal programs are required to be in compliance with Subpart B cash draw down procedures.

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. There is a lack of segregation of duties within DMS' federal draw down process, as the same DMS staff is responsible for executing the query, importing the query results into the spreadsheet, modifying the spreadsheet in order to calculate the draw amounts, performing the cash draw downs, and reconciling the subsequent cash receipts to the Accounts Receivable information in FSF. In addition, the draw down information could not be directly traced back to FSF because 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. We were unable to determine whether the federal cash draws were in compliance with applicable funding techniques or Subpart B requirements because we could not validate the information used to perform the draws.
Cause	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.
Effect	Without a management review control in place, DMS may request funds in a manner which is not in compliance with the CMIA, Subpart B, or the terms of the grant agreements.
Recommendation	We recommend that DMS enhance its federal draw down procedures to ensure 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 maintains the original FSF query results that correspond to each draw down either in hardcopy or in a nonalterable electronic format so that the draw down information can be validated.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Harry Roberts, DHSS Controller***
Agency Contact Phone Number	(302) 255-9235

Corrective Action Plan	***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.
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	On 2/28/12 corrective action was put in place as described.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Health and Social Services** **Division of Management Services**
Fiscal Year	**2011**
Reference Number	**11-DHSS-02**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Temporary Assistance for Needy Families (93.558, S-93.714)** **Child Care Cluster (93.596, 93.575, S-93.713)** **State Children's Health Insurance Program (93.767)** **Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)** **Child Support Enforcement (93.563), S-93.563)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Special Tests and Provisions (ADP Risk Analysis and System Security Review)**
Criteria	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	At least biennially, DHSS must review their ADP system security of installations involved in the administration of HHS programs. DHSS has provided us with a SOC 1 report for the MMIS system but it cannot be used as evidence of 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 (Partially covered by the SOC 1 report. The report does not cover any front end systems or back end systems that are not managed by the service organization.); (B) Equipment security to protect equipment from theft and unauthorized use (Partially covered. Similar to A above); (C) Software and data security (Partially covered by SOC 1 report. The report does not appear to cover security at the database level.); (D) Telecommunications security (Not covered); (E) Personnel security (Not covered); (F) Contingency plans to meet critical processing needs in the event of short or long-term interruption of service (Not covered); (G) Emergency preparedness; (Not covered) and,

	(H) Designation of an Agency ADP Security Manager. (Not covered by the SOC 1 report; however per procedures performed, we note DHSS has an Information Security Officer).
Cause	DHSS does not have a formal policy to monitor and review system security over their systems. The provided SOC1 report does not sufficiently cover the security components required by HHS.
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.
Recommendation	DHSS should coordinate with DTI to implement 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	DHSS's Information Resource Management unit will work with the State Department of Technology and Information to draft and implement a formal policy by Jan. 1, 2013 to complete the biannual system security reviews as required in 45 CFR § 95.621.
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 update is the status on this finding as of 6/28/12. DHSS believes that we partially meet the biannual system security review as required in 45 CFR § 95.621 via the Federal Audits that take place from the IRS, and the Social Security Administration and cover all the required components. However on the odd years that the IRS or SSA do not audit DHSS, DHSS will have an independent audit conducted to fill the audit gap that year that will also cover all of the required components. Regarding DHSS having a formal policy to monitor and review system security over our systems, DHSS/IRM is in the process of writing the policy and is working through the exact wording and logistics to be included so we can meet the standards of 45 CFR § 95.621 and the biannual audit. This policy will be implemented and in effect as of January 1, 2013.

	In regards to the SOC1 report not meeting the current timeframes, we are working with Hewlett-Packard (HP) to amend the timing of the report to cover the State of Delaware Fiscal year and not Calendar year.
Anticipated Completion Date (if not Fully corrected).	We anticipate completion by January 1, 2013.

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Health and Social Services** **Division of Management Services**
Fiscal Year	**2011**
Reference Number	**11-DHSS-03**
Related Prior Year Findings	**10-CSE-04**
Program Name (CFDA No.)	**Child Support Enforcement (93.563, S-93.563)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Suspension and Debarment**
Criteria	Per the March 2011 Compliance Supplement, " 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 governmentwide 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 Department of Health and Social Services did not include the proper suspension and debarment language within the signed contractual agreement with the contractor selected for testwork out of the population of five contractors utilized by the program.
Cause	The Department of Health and Social Services was unable to furnish a signed contract which included the appropriate suspension and debarment language. The Department did not utilize the State's "boiler plate" contract.
Effect	The Department of Health and Social Services may have entered into a contractual agreement with a vendor which is suspended and/or debarred.
Recommendation	We recommend that the Department of Health and Social Services develop policies and procedures over the utilization of the State's "boiler-plate" contract.

Questioned Costs	There were no questioned costs associated with this finding due to procedures performed surrounding the suspension and debarment of the contractor in which the contractor was neither suspended nor debarred.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	• It should be pointed out that the contractor was not on the Federal suspension and debarment listing. • During contract negotiations with contractor A (the first contract related to this finding) the suspension and debarment language from the contract appendix was inadvertently deleted. The contract is being amended to include the required suspension and debarment language and all of the Division contracts, upon amendment or execution will have the required language included. This will be completed by March 1, 2012 and will include the following language which, it should be noted, was contained in the original solicitation which contractor A responded to. "The original solicitation for the State Disbursement Unit automation under which this vendor was selected contained requirements in both Appendix A Section 17 and Appendix C Section 24 that the selected vendor comply with the provisions and prohibition of the Debarment Act and to affirm that they are not currently subject to either suspension or debarment from Procurement and Non-Procurement activities by the Federal Government.
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	DCSE reviewed its contracts and the Suspension and Debarment language was incorporated as required.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Health and Social Services** **Division of Management Services**
Fiscal Year	**2011**
Reference Number	**11-DHSS-04**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**State Children's Health Insurance Program (93.767)** **Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Suspension and Debarment**
Criteria	Per the March 2011 Compliance Supplement, 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 State does not check annually to determine if a vendor is suspended or debarred. The State has the vendor sign a "boiler plate" contract which certifies that the vendor is not suspended or debarred. Once the contract is signed the State does not check the current status of the vendor in proceeding years. We note one vendor changed its name in January 2010 from Electronic Data Systems (EDS) to HP Enterprise Services (HP). We note the original vendor contract with EDS (from 2000) did not contain the "boiler plate" language certifying that the vendor was not suspended or debarred. When the vendor changed names an amendment to the contract was provided however the "boiler plate" language was not included in the amendment.
Cause	The State did not check because the State relied on the boiler plate language.

Effect	A vendor that is suspended or debarred during the year or after certifying that they are not suspended or debarred via their contract, would be able to continue to provide services to the State.
Recommendation	For those vendors that provided a contract before the "boiler plate" process was established, the State should check annually if a vendor is suspended or debarred via the EPLS website and the print out of the results should be included in the vendor's procurement documents. Also, if the original contract does contain the "boiler plate" language and a vendor changes names, the State should verify per the EPLS website that the vendor is not suspended or debarred.
Questioned Costs	There are no questioned costs associated with this finding as the vendor was not suspended or debarred.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	This contract did not include the standard federal debarment language, found in clause B (24) of the DHSS boilerplate contract, because this contract was executed prior to 2008 which is when the federal debarment clause was added to the DHSS boilerplate contract document. Though Divisions have been instructed to include the debarment language in amendments, unfortunately, this did not occur in this case. Fortunately the contractor was not on the suspension and debarment list. The procurement section of the Division of Management Services will reinforce to DHSS divisions the need to include debarment language in amendments to their contracts.
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 Contracts Management and Procurement unit has developed a contract signature checklist that Divisions will be required to complete for each contract/amendment they execute. Querying the EPLS.gov site and including evidence of same in the contract file will be two of the checklist items that are required to be completed to execute contracts/amendments.

Anticipated Completion Date (if not Fully corrected).	The contract signature checklist will be issued after the start of the new FY (7/1/2012) for immediate use.

Agency	**Department of Health and Social Services** **Division of Management Services**
Fiscal Year	**2011**
Reference Number	**11-DHSS-05**
Related Prior Year Findings	**10-DSS-01**
Program Name (CFDA No.)	**Supplemental Nutritional Assistance Program Cluster (10.551, 10.561, S-10.561)** **Temporary Assistance for Needy Families (93.558, S-93.714)** **Child Care Cluster (93.596, 93.575, S-93.713)** **State Children's Health Insurance Program (93.767)** **Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Allowable Costs**
Criteria	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 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), Child Care Development Fund (CCDF) and Medicaid.

Cause	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 $1.4 million, while allowable, 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 last year's Single Audit response, in February 2010, DHSS secured assistance from an independent firm for the purpose of reviewing the department's Random Moment Sampling (RMS) process which is a vital component of the Public Assistance Cost Allocation Plan (PCAP). Based on this review, changes were implemented to improve that process and the resulting allocations. This included regular updates to the employee roster from which the RMS sample is drawn and the provision of RMS training to workers that respond to the time study. Additionally, DHSS released a Request for Information (RFI) for proposals to replace DHSS's Random Moment Time Study (RMTS) and cost allocation system software (both applications were unsupported and outdated). Since last year's Single Audit, contracts have been awarded. A new internet based RMTS was fully implemented on 1/1/11 with a 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 which included provision of a technical documentation and users manual. DHSS staffs were trained in its use. In FY-11, subsequent to releasing a Request for Proposal (RFP), DHSS awarded a contract to secure further outside assistance to review of 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 PCAP, and (3) production of an up-to-date, integrated DHSS PCAP with sound quality control procedures. The initial work of interviewing the various internal DHSS organizations to identify the various cost pools has been completed 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 (to commence February 2012) 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. We target completing this project in calendar year 2012 with the resulting PCAP submitted to the Department of Health and Human Services Division of Cost Allocation toward the end of the fourth quarter of calendar year 2012. Lastly, it should be pointed out that the DMMA workers (via the eligibility process they carry out) that participate 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 organizations and are not restricted to just one organization. But again, what the new narrative does and the 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	The next work phase to design/refine the various allocation methodologies, time studies, accounting structures that need to be in place began in February 2012. This work effort continues and 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.
Anticipated Completion Date (if not Fully corrected).	We continue to target submission of the PCAP at the end of the 4th quarter of calendar year 2012 (implementation contingent on DCA approval).

Agency	**Department of Health and Social Services** **Division of Medicaid and Medical Assistance**
Fiscal Year	**2011**
Reference Number	**11-DMMA-01**
Related Prior Year Findings	**10-DSS-03, 10-DSS-04**
Program Name (CFDA No.)	**Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Eligibility**
Criteria	The Compliance Supplement states "these include that the State or its designee shall: 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 other were issued (42 CFR Sections 435.910(g) and 42 CFR Section 435.920)."
Condition	For 1 out of 65 applicants selected, the Division of Medicaid and Medical Assistance (DMMA) did not provide evidence that the applicant's Social Security Number was verified with the Social Security Administration (SSA) during the period under audit. The DMMA was able to provide a screen shot from the DCIS system showing the SSN verification for this applicant; however, the match date was 12/6/2011, which was subsequent to the fiscal year under audit (7/1/10 – 6/30/11). The Department also subsequently provided a screens shot from the DACSES System showing the SSN for the applicant in regards to the applicant's Child Support obligation inputted in 1996. We were unable to identify whether or not a SSN verification was completed utilizing this system screen shot.
Cause	The lack of verification resulted from the DCIS system not having included the applicant within the population to run through the data matching interfaces with the Social Security Administration.
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.

Recommendation	We recommend that the State modify its procedures to ensure all cases are subject to data matching.
Questioned Costs	The individual was deemed eligible for the Adult Expansion Population Medicaid under the Diamond State Health Plan, Delaware's Medicaid Managed Care Program which provides Medicaid coverage to all uninsured adults aged 19 and older with gross income that is at or below 100% of the Federal Poverty Level. The questioned costs of $2,031 relates to the qualifying claims during the fiscal year ending June 30, 2011.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	We believe that the conclusion the auditors have arrived at is faulty. As demonstrated in the information and documentation provided the auditors, the SS# has been confirmed at a range of points within the life of this client's touching DHSS and its programs. The auditors narrowly viewed that the SS# should have been confirmed during the audit period. The fact of the matter is that this is unnecessary as the SS# was confirmed prior to the audit period and confirmation does not need to be repeated as SS#'s for a person are assigned for their lifetime and does not change. Also – the auditors do recognize a SS# match on 12/6/11. Again – since SS#'s don't change, we believe there are no questioned costs associated with this finding.
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 original response to this finding, DSS and DMMA do not agree with the finding. We do not believe there are any incorrect payments. As a result, no action is needed.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Health and Social Services** **Division of Medicaid and Medical Assistance**
Fiscal Year	**2011**
Reference Number	**11-DMMA-02**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**State Children's Health Insurance Program (93.767)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Eligibility**
Criteria	States have flexibility in determining eligibility levels for individuals for whom the State will receive enhanced matching funds within the guidelines established under the Act. Generally, a State may not cover children with higher family income without covering children with a lower family income, nor deny eligibility based on a child having a preexisting medical condition. States are required to include in their State plans a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning individual eligibility requirements (42 USC 1397bb(b)). Per Section 4.1 Delaware's State Plan the following standards may be used to determine eligibility of targeted low-income children for child health assistance under the plan: 4.1.7 Must be uninsured for at least 6 previous months 4.1.8 12 months of guaranteed eligibility 4.1.9 Must be (1) ineligible for enrollment in any public group health plan; and, (2) a social security number is required for an applicant child, effective August 24, 2001
Condition	Three out of our sample of forty children receiving SCHIP benefits were determined to be ineligible to receive SCHIP benefits. Children who receive either Medicaid or they were covered under another independent healthcare provider are not also eligible to receive SCHIP benefits. The amount received be each child is the following: Child #1 received MCI#1033248-$627.05 ($416.27 FFP) Child #2 received MCI#812915-$1223.29 ($815.07 FFP), and Child #3 MCI# 1687470- $337.11 ($226.57 FFP) received SCHIP benefits during the State's fiscal year 11.

Cause	The information entered into MMIS does not interface with DCIS, and, therefore, updates in MMIS are not considered until annual redetermination. In two cases the child was receiving private health benefits at the same time as receiving SCHIP benefits in FY2011. The State was aware the child was receiving private health benefits and the information was correctly included in the MMIS system. However, the information was not included in the DCIS II system. In one case the child was receiving Medicaid benefits at the same time as receiving SCHIP benefits in FY2011. The State was aware the child was receiving Medicaid and the information was correctly included in the MMIS system. However, the information was not included in the DCIS II system.
Effect	The recorded information in MMIS does not match the information in DCIS II. State employees responsible for determining SCHIP eligibility via the DCIS II system are relying on inaccurate recipient information. Therefore children receiving SCHIP benefits may not be eligible to receive these benefits.
Recommendation	The DCISII and MMIS systems should interface to ensure that the information recorded in one system agrees to what is recorded in the other system.
Questioned Costs	Questioned costs associated with the three children are $2,187.45 total computable dollars ($1,457.91FFP).
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	DSS concurs that the children were ineligible for SCHIP because all three had private health insurance. One part of the finding is incorrect. One child (MCI# 1687470) did not have Medicaid and SCHIP at the same time. The child received Medicaid from 7/1-9/30/10 and then SCHIP 10/1-1/31/11 and then Medicaid 2/1/11-9/30/11. The period when the child qualified for Medicaid is not an error. Children receiving Medicaid are eligible even if the child is covered by private insurance. The parent/caretaker is not always the most reliable informant about private health insurance. The information obtained by MMIS matches with private insurance or through the Division of Child Support is more reliable. When the MMIS is re-procured or if the current MMIS can be improved, this error could be eliminated with the following changes: • When TPL information is entered in the MMIS, have the MMIS create an interface so the TPL information is passed to DCIS. The interface populates the DCIS TPL screens and an alert is sent to the assigned Social worker to "process" the change which will

	terminate SCHIP eligibility and the parent caregiver will receive the proper notice. • When a new SCHIP child is passed from DCIS to the MMIS, the MMIS should check the MMIS TPL screens to determine if the child has other insurance. If the child has other insurance, SCHIP should be denied and notice sent to the parent/caretaker. The interface populates the DCIS TPL screens and an alert is sent to the assigned social worker to "process" the change which will terminate eligibility.
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	Our current client eligibility and MMIS systems assure that a child cannot be in Medicaid and SCHIP for the same time period. TPL alerts are currently generated in the DCIS client eligibility system and are worked centrally by staff that reviews the TPL information in the MMIS and takes appropriate action in DCIS. However, this process and staff workload results in there always being a lag in this information being actually updated in the DCIS system. The suggested corrective action plan requires extensive changes to the MMIS system and some changes to the DCIS system. As a result, these changes will need to be incorporated in the new MMIS that will be developed over the next few years and that will be implemented in 2015.
Anticipated Completion Date (if not Fully corrected).	2015

Agency	**Department of Health and Social Services** **Division of Social Services**
Fiscal Year	**2011**
Reference Number	**11-DSS-01**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Child Care Cluster (93.575, 93.596, S-93.713)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Special Tests and Provisions (Fraud Detection and Repayment)**
Criteria	Per the 2010 DHSS, Division of Management Services, Audit and Recovery Management Services (ARMS) Management Plan Section 3&4 (a), "A referral is a request to investigate potential/suspected fraudulent activity or eligibility issues within those benefit service programs administered through the Department of Health and Social Services (DHSS). These requests are received from private citizens, State, local and federal agencies. A referral is the starting point of the investigation. The referral source is just the vehicle that delivers the allegation or eligibility issue that needs to be investigated. The reporter has the option of maintain their anonymity. All referrals are treated confidentiality. Referral Completion Time Frames: Referral Type — Completion Timeframe DSS/DMMA/QC Referral for Overpayment/Prosecution — 30 calendar days State/Federal Agency Referrals — 30 calendar days
Condition	We obtained a listing of 34 claims established during the State's Fiscal Year. The claims identified by the Audit Recovery and Management System (ARMS) department were coded as Agency Errors (AE) or Inadvertent Household Errors (IHE). Therefore, we selected nine cases to review for compliance with the Fraud and Detection Repayment Requirement and noted the following: • For two out of nine case files, the referral process was not completed within the appropriate time frame. • For Case #1, the overpayment was reported to the Division of Child Support

	Enforcement (DCSE) in November 2007. It was reported to the Division of Social Services (DSS) on January 2008 and an overpayment was prepared by DSS on October 2009. ARMS received the overpayment paperwork from DSS on January 2010 and prepared an overpayment claim on January 2010. • For Case #2, the original Date of Discovery by the investigator was June 2009, but the claim was established on February 2011 by ARMS.
Cause	The Division of Audit and Recovery Management Services did not follow their ARMS Management Plan with their referral completion time frames.
Effect	The Division of Audit and Recovery Management Services processed claims that were referred outside of the referral completion time frames.
Recommendation	We recommend that the Division of Audit and Recovery Management Services follow the procedures outlined in their ARMS Management Plan.
Questioned Costs	There are no questioned costs associated with this finding because the claims were identified as Inadvertent Household Errors (IHE) rather than an Intentional Program Violations (IPV).
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	Due to several factors, these two cases were completed outside the completion timelines. ARMS will take steps to expedite processes to avoid a reoccurrence.
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	Currently each ARMS investigator's caseload exceeds 2,000 active investigations with some exceeding 3,000. For Child Care, in State Fiscal Year 2012, ARMS investigated and resolved 28 Child Care cases which, when compared to other Federal programs such as SNAP, is a small number (though no less important). The ARMS unit makes every effort to complete investigations in a timely manner. Yet with the extremely high caseloads carried by ARMS investigators, pending investigations and limited staff resources, the ARMS unit will continue to struggle to meet the completion timelines.

Anticipated Completion Date (if not Fully corrected).	To be determined contingent on staff resource availability.

Agency	**Department of Health and Social Services** **Division of Social Services**
Fiscal Year	**2011**
Reference Number	**11-DSS-02**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Child Care Cluster (93.596, 93.575, S-93.713)**
Type of Finding	**Material Weakness**
Compliance Requirement(s)	**Earmarking**
Criteria	Quality Earmark – States and Territories must spend on quality and availability activities, as provided in the State/territorial plan, not less than 4% of CCDF funds expended (i.e., the total of CFDAs 93.575, 93.596, and 93.713 funds) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed. (45 CFR Section 98.51)
Condition	Per the Fiscal Year 08 ACF 696 Final Report submitted on 9/30/2010, quality activity expenditures were $831,405. The total expenditures per the report were $25,424,142; therefore the four percent of expenditure Earmark for Quality Activities did not appear to be met. Quality activities were 3.27% ($831,405/$25,424,142) which does not meet the minimum requirement of four percent. Subsequent research by the Agency revealed that the submitted ACF 696 Final Report contained errors on line 1, 4 and 6 Column C. On line 6 (column C) $6,458,196 was reflected as transferred from TANF and expended. In reviewing the record of expenditures, no funds were transferred and expended from TANF. This overstates the total amount expended on CCDF by $6,458,196. As a result: • The correct amount on line 6 Column C should have been zero. • The correct total reported amount should have been $18,965,946. • The required 4% Quality Activity would be $758,638 ($18,965,946 X's 4%). • By expending $831,405 on Quality Activity, DHSS has met and even exceeded the required 4%.

Cause	The Division of Social Services does not have controls in place to monitor the earmark requirement.
Effect	The Division of Social Services was unaware that it was deemed to not have met the minimum earmark for quality activities based on the submitted reports. Additionally, inaccurate reporting could lead to erroneous earmarking calculations.
Recommendation	We recommend that the Department of Health and Social Services develop procedures and controls to monitor earmarking requirements.
Questioned Costs	There are no questioned costs associated with this finding as DHSS is deemed to have met the earmarking requirements based on corrected reporting amounts.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	In reviewing this finding and reviewing the Fiscal Year 08 ACF 696 Final Report submitted on 9/30/2010, an error was discovered on line 1, 4 and 6 Column C. On line 6 (column C) \$6,458,196 was reflected as transferred from TANF and expended. In reviewing the record of expenditures, no funds were transferred and expended from TANF. This overstates the total amount expended on CCDF by \$6,458,196. Therefore: • The amount on line 6 Column C should have been zero. • The total reported amount \$18,965,946. • The required 4% Quality Activity would be \$758,638 (\$18,965,946 X's 4%). • By expending \$831,405 on Quality Activity, DHSS met and even exceeded the required 4%. DHSS will submit a revised the Fiscal Year 08 ACF CCDF 696 Final Report to correct this error. Additionally, DHSS is currently engaged in developing written procedures for report preparation which will include steps to avoid this type of error from occurring.
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 Fiscal Year 08 ACF CCDF 696 Final Report will be submitted by the end of July 2012 and will correct this error. The project for developing written procedures for report preparation is 90% complete with completion targeted for September 15, 2012.
Anticipated Completion Date (if not Fully corrected).	September 2012

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Health and Social Services** **Division of Social Services**
Fiscal Year	**2011**
Reference Number	**11-DSS-03**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Supplemental Nutritional Assistance Program Cluster (10.551, 10.561, S-10.561)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Matching**
Criteria	The State is required to pay 50% of the costs of administering the program. Exceptions to this 50% reimbursement rate include 100% grants to: a. Administer the Employment and Training component of the program (7 CFR Section 277.4(b)); and b. Provide nutrition education and obesity prevention services, beginning October 1, 2010 (7 USC 2036a, Section 241 of Pub. L. No. 111-296, 124 Stat. 3183, December 13, 2010). There is no matching requirement for ARRA funding of a State's SNAP administrative costs. (Sections 101(c) of ARRA, 123 Stat. 120)
Condition	For three of the sixty-five matching transactions tested, we note the incorrect matching percentages were used to calculate the matching amounts for FY2011. For two of the transactions the Division of Social Services (DHSS) charged the State a matching rate of 45% instead of the required 50%. For the first transaction, the total amount of the transaction was $564. The amount charged to the State was $254, whereas $282 should have been charged to the State. For the second transaction the total amount of the transaction was $301. The amount charged to the State was $135, whereas $150 should have been charged to the State. For the third transaction the DHSS did not charge the State a matching rate, whereas they should have charged a rate of 50%. The amount charged to the State was $217, whereas 50% or $109 should have been charged to the State.
Cause	Portions of two cited payments and 100% of another cited payment were charged in error to FNS State Exchange funds.

Effect	The Division of Social Services is expending funds which are not in accordance with the set Federal and State split matching percentages which will lead to a decrease in allocations made by the State.
Recommendation	We recommend that the Division implement policies and procedures surrounding documentation retention as well as policies and procedures surrounding the utilization of the appropriate Federal and State matching percentages.
Questioned Costs	The questioned costs associated with this finding are $152. The total expenditures for the 65 matching transactions tested in our sample were $2,963,132, and the total expenditure population subject to our sampling was $12,795,889 for the fiscal year ended June 30, 2011.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	The three cited payments were charged in error to FNS State Exchange funds. DSS will process correcting entries in the State accounting system to remove the charges from the State Exchange funds and charge them to the 50% SNAP administrative funds. Additionally DSS will heighten its review of payments against FNS State Exchange funds to avoid this type of error from reoccurring.
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 correcting entries were processed on 4/10/12.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Health and Social Services** **Division of Social Services**
Fiscal Year	**2011**
Reference Number	**11-DSS-04**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Child Care Cluster (93.596, 93.575, S-93.713)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Reporting**
Criteria	ACF-696, Child Care and Development Fund Financial Report (OMB No 0970-0163) is due quarterly from States and Territories. These reports are in lieu of the SF-269, Financial State Report/SF-425, Federal Financial Report (financial status). Each fiscal year's expenditure report must be separate, therefore, multiple reports may be required if awards from more than one fiscal year are expended in a given quarter. Any funds transferred from TANF are treated as Discretionary Funds for reporting on the ACF-696. (42 USC 604(d); 45 CFR Section 98.54(a))
Condition	For 1 of the 2 ACF-696 reports reviewed, the CCDF Form ACF-696 Report expenditures were inaccurately recorded. Per the Financial Aid Report from First State Financials (FSF), expenditures were $3,275,670; per the Form ACF-696 report, expenditures were $5,647,230 for the quarter ending June 30, 2011.
Cause	The Division of Social Services does not have an adequate control to review and reconcile total amounts reported on the Form ACF-696 to the total amounts reported in FSF, to ensure that all federal expenditures are accurate and included in the Form ACF-696.
Effect	The amounts reported to the U. S. Department of Health and Human Services on Form ACF-696 could not be reconciled to the amounts reported on the FSF generated report (DGM001_M) which results in the Federal Government having less/more information about expenditures than were really incurred, which will increase/decrease the analysis of allocation made to the State. The Division over reported expenditures by a total of $2,371,560 ($5,647,230 – $3,275,670).

Recommendation	We recommend that the Department of Health and Social Services develop procedures to reconcile cumulative expenditures reported on Form ACF-696 to expenditures accumulated in FSF, to ensure all federal expenditures and transfers to other Federal programs are appropriately reported.
Questioned Costs	There are no questioned costs associated with this finding as the amount of cash drawn agrees with the expenditures recorded per FSF.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	While the expenditure information was in the FSF system, the original configuration of the FSF report (DGM001_M) used by DHSS did not give adequate detail to complete the ACF-696 reports accurately. The FSF report has been subsequently reconfigured to more appropriately reflect the information in the underlying FSF system. DHSS will conduct an analysis of the reconfigured DGM001_M report and accurately reflect expenditures on the ACF-696 report. Additionally, DHSS is currently engaged in developing written procedures for report preparation which will include reconciling expenditures on Federal reports to expenditures in FSF, the State's accounting system.
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 of the March 31, 2012 ACF-696 report, the actual expenditures from the DGL123 report are used to report the total expenditures and the financial information contained in the DGM001_M report is used to reflect expenditures in subcategories on the report. Because the two reports come from different ledgers within FSF, there is a timing difference as to when some transactions post to the DGM001_M report. Hence, each quarter we make reconciling adjustments to align the amounts to the DGL123. Due to the timing difference, the subsequent quarter will contain the transactions delayed due to timing. At the end of the grant/closeout, the DGL123 and DGM001_M will agree and reconcile as timing will not be an issue as all transactions will have flowed through all ledgers. The ACF 696 report should match expenditures now paid through the General Ledger as reported in the DGL123 report. Reported expenditures will be corrected on the June 2012 report. We are in the process of working with the Division of Accounting/FSF to discuss the reports and best practice with the goal of using a single report. The project for developing written procedures for report preparation is 90% complete with

	completion targeted for September 15, 2012.
Anticipated Completion Date (if not Fully corrected).	September 2012

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Health and Social Services** **Division of Social Services**
Fiscal Year	**2011**
Reference Number	**11-DSS-05**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Supplemental Nutritional Assistance Program Cluster (10.551, 10.561, S-10.561)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Reporting**
Criteria	(c) *Financial status report* (1) Form. State agencies shall use the standard Financial Status Report (Form SF–269) to report program costs. (2) Frequency. The report (Form SF–269) shall be required quarterly. (3) Exceptions. Those State agencies that receive payments under the U.S. Treasury check system shall submit to FNS a Quarterly Report of Federal Cash Transactions (Form SF–272). (4) Due dates. Quarterly reports shall be due April 30 (for the period January through March), July 30 (April through June), October 30 (July through September), January 30 (October through December). Final reports are due December 30 for all completed Federal fiscal years (October 1 through September 30) or 90 days after termination of Federal financial support. Requests from State agencies for extension of reporting due dates may be approved, if necessary. (7 CFR Section 277.11(c))
Condition	We were unable to obtain and test a reconciliation of the SNAP amounts reported to the U.S. Department of Agriculture (USDA) on Form SF-269 to the amounts reported on the First State Financials (FSF) generated reports as well as the supporting documentation provided. We note that total expenditures per FSF were $1,275,904 and the Form SF-269 reported total expenditures of $2,675,583 for the quarter ending December 31, 2010. For the quarter ending June 30, 2011, total expenditures per FSF were $13,546,604 and the Form SF-269 reported total expenditures of $11,159,535.

Cause	The Department of Health and Social Services does not have a procedure in place to reconcile total amounts reported on the Form SF-269 to the total amounts reported in FSF, to ensure that all federal expenditures are accurate and included in the Form SF-269 report.
Effect	The amounts reported to the USDA on Form SF-269 could not be reconciled to the amounts reported on the FSF generated report (DGM001_M) which results in the Federal Government having less/more information about expenditures than were really incurred, which will increase/decrease the analysis of allocation made to the State.
Recommendation	We recommend that the Department of Health and Social Services develop procedures to reconcile cumulative expenditures reported on Form SF-269 to expenditures accumulated in FSF, to ensure all federal expenditures and transfers to other Federal programs are appropriately reported.
Questioned Costs	The comparison between the Form SF-269 and the FSF Report (DGM001_M) utilized to prepare the Form SF-269 has a questioned cost of $2,387,069 for the Form SF-269 for the period ending June 30, 2011.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	While the expenditure information was in the FSF system, the original configuration of the FSF report (DGM001_M) used by DHSS did not give adequate detail to complete the SF-269 reports accurately. The FSF report has been subsequently reconfigured to more appropriately reflect the information in the underlying FSF system. DHSS will conduct an analysis of the reconfigured DGM001_M report and accurately reflect expenditures on the SF-269 report. Additionally, DHSS is currently engaged in developing written procedures for report preparation which will include reconciling expenditures on Federal reports to expenditures in FSF, the State’s accounting system.
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 of the March 31, 2012 SNAP SF-269 report, the actual expenditures from the DGL123 report are used to report the total expenditures and the financial information contained in the DGM001_M report is used to reflect expenditures in subcategories on the report. Because the two reports come from different ledgers within FSF, there is a timing difference as to when some transactions post to the DGM001_M report. Hence, each quarter we make reconciling adjustments to align the amounts to the DGL123. Due to the timing difference, the subsequent quarter will contain the transactions delayed due to timing. At the end of the grant/closeout, the DGL123 and DGM001_M will agree and reconcile as timing will not be an issue as all transactions will have flowed through all ledgers. The SNAP SF-269 report should match expenditures now paid through the General Ledger as reported in the DGL123 report. Subsequent quarters should have adjusted the reported expenditures reflected in the June 30, 2011 period. We are in the process of working with the Division of Accounting/FSF to discuss the reports and best practice with the goal of using a single report. It should be noted that USDA-FNS conducted a SNAP financial management review the week of 6/18/12. FNS reviewed the SF-269 for the quarter ending 3/31/12 and found that reported amount matched the amounts contained in FSF reports. The project for developing written procedures for report preparation is 90% complete with completion targeted for September 15, 2012.
Anticipated Completion Date (if not Fully corrected).	September 2012

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Health and Social Services** **Division of Social Services**
Fiscal Year	**2011**
Reference Number	**11-DSS-06**
Related Prior Year Findings	**10-DHSS-02**
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	ACF-196, *TANF Financial Report (OMB Control No. 0970-0247)* - States are required to submit this report quarterly in lieu of SF-269, *Financial Status Report*. Each State files quarterly expenditure data on the State's use of Federal TANF funds, State TANF MOE expenditures, and State expenditures of MOE funds in separate State programs. If a State is expending Federal TANF funds received in prior fiscal years, it must file a separate quarterly TANF Financial Report for each fiscal year that provides information on the expenditures of that year's TANF funds.
Condition	We were unable to test a reconciliation of the TANF amounts reported to the U.S. Department of Health and Human Services on Form ACF-196 to the amounts reported on the First State Financials (FSF) generated reports as well as the supporting documentation provided. Total expenditures per the FSF DGM001_M report were $33,346,698 and the ACF-196 reported total expenditures of $25,832,785, therefore the reconciling difference is $7,513,913 (these balances include both State and Federal activities incurred for the quarter ending December 31, 2010). We received the FSF DGL123 report, which per discussion with the Department, was the proper report to utilize to accurately report the Federal expenditures for the program. We note that the total TANF expenditures per the quarter was $28,438,766, therefore the reconciling difference between the ACF-196 report and the DGL123 is $2,605,981, for the quarter ending December 31, 2010.

Cause	The Department of Health and Social Services does not have a procedure in place to reconcile total amounts reported on the Form ACF-196 to the total amounts reported in FSF, to ensure that all federal expenditures and transfers to other programs (Child Care Development Fund and Social Services Block Grant) are accurate.
Effect	The amounts reported to the U. S. Department of Health and Human Services on Form ACF-196 could not be reconciled to the amounts reported on the FSF generated report (DGM001_M) which results in the Federal Government having less information about expenditures than were really incurred, which may affect the analysis of allocation made to the State.
Recommendation	We recommend that the Department of Health and Social Services develop procedures to reconcile cumulative expenditures reported on Form ACF-196 to expenditures accumulated in FSF, to ensure all federal expenditures and transfers to other Federal programs are appropriately reported.
Questioned Costs	The comparison between the Form ACF-196 and the FSF Report (DGM001_M) utilized to prepare the Form ACF-196 has a questioned cost of $2,605,981 for the Form ACF-196 for the period ending December 31, 2010.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	While the expenditure information was in the FSF system, the original configuration of the FSF report (DGM001_M) used by DHSS did not give adequate detail to complete the ACF-196 reports accurately. The FSF report has been subsequently reconfigured to more appropriately reflect the information in the underlying FSF system. DHSS will conduct an analysis of the reconfigured DGM001_M report and accurately reflect expenditures on the ACF-196 report. Additionally, DHSS is currently engaged in developing written procedures for report preparation which will include reconciling expenditures on Federal reports to expenditures in FSF, the State’s accounting system.
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 of the March 31, 2012 ACF-196 report, the actual expenditures from the DGL123 report are used to report the total expenditures and the financial information contained in the DGM001_M report is used to reflect expenditures in subcategories on the report. Because the two reports come from different ledgers within FSF, there is a timing difference as to when some transactions post to the DGM001_M report. Hence, each quarter we make reconciling adjustments to align the amounts to the DGL123. Due to the timing difference, the subsequent quarter will contain the transactions delayed due to timing. At the end of the grant/closeout, the DGL123 and DGM001_M will agree and reconcile as timing will not be an issue as all transactions will have flowed through all ledgers. The ACF 196 report should match expenditures now paid through the General Ledger as reported in the DGL123 report. Reported expenditures will be corrected on the June 2012 report. We are in the process of working with the Division of Accounting/FSF to discuss the reports and best practice with the goal of using a single report. The project for developing written procedures for report preparation is 90% complete with completion targeted for September 15, 2012.
Anticipated Completion Date (if not Fully corrected).	September 2012

Agency	**Department of Health and Social Services** **Division of Social Services**
Fiscal Year	**2011**
Reference Number	**11-DSS-07**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Child Care Cluster (93.596, 93.575, S-93.713)**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Special Tests and Provisions (Health and Safety Requirements)**
Criteria	Lead Agencies must verify that child care providers (unless they meet an exception, e.g., family members who are caregivers or individuals who object to immunization on certain grounds) serving children who receive subsidies meet requirements pertaining to prevention and control of infectious diseases, building and physical premises safety, and basic health and safety training for providers (45 CFR Section 98.41).
Condition	During our testing of license issuance at the Office of Child Care and Licensing (OCCL), we noted for one out of forty case files selected, the license application was not completed or present in the case file, and the provider was provided with a Child Care Provider License.
Cause	The Office of Child Care and Licensing did not follow their procedure and policy for issuing licenses to providers and maintaining compliance with licensure.
Effect	The Office of Child Care and Licensing issued license to providers or allowed providers to maintain their licensure without obtaining or completing the required attributes to obtain or maintain their licensure.
Recommendation	We recommend that the Office of Childcare and Licensing follow their procedures and policies for issuing licenses and maintaining licensure for providers.
Questioned Costs	There were no questioned costs associated with this finding as the provider was subsequently determined to be appropriately licensed.

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	Unfortunately, OCCL was not able to locate the cited application that was submitted. In viewing this finding, it is important to consider the process used to issue a license. Prior to a license being issued the renewal packet is reviewed by the Licensing Supervisor for completeness; the application would be one of the documents the Licensing Supervisor would specifically have been looking for – without which the Licensing Supervisor would have not signed off (which is required prior to the issuance of a license). In other words, without the application, the license would not have been issued. In fact, OCCL would have closed the case because the license is valid for only one year and would have expired. The lack of an application is viewed by OCCL as an incident of human error of a misfiled document which has not been located. DSS will communicate to OCCL the need to ensure that all documentation is properly maintained/filed in order to provide a proper audit trail of the approval process. Additionally, OCCL conducted licensing site visits to the provider on 7/9/09, 10/28/10, 10/28/11, 11/29/11, and 1/9/12. The point is that there is a system in place that regularly monitors the compliance of the provider's facility to Delaware Rules which, if not complied with, the license would be revoked. This was not the case with this provider. **Update 8/1/2012:** This corrective action plan has been implemented
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	DSS is in the process of formally communicating to OCCL the need to ensure that all documentation is maintained/filed.
Anticipated Completion Date (if not Fully corrected).	September 2012

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 individuals began working on May 21, 2012 and are still undergoing an extensive training program. 1) 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 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. In New Castle County alone the 14 establishment staff have been instructed to conduct 10 interviews a week per employee. 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 cases closed statewide through May 2012.

Paternity Establishments by Month

January 15, 2012 to January 31, 2012	292
February 1, 2012 to February 29, 2012	589
February 29, 2012 to March 30, 2012	501
April 1, 2012 to April 28, 2012	495
May 1, 2012 to May 31, 2012	629
June 1, 2012 to June 15, 2012	222
Total	2728

Cases Closed by Month

2012	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Total**
Kent	326	148	252	205	225	1156
NCC	325	459	594	463	767	2608
Sussex	222	209	219	182	219	1051
Total	**873**	**816**	**1065**	**850**	**1211**	**4815**

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.**

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. **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. **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: On a couple of occasions, DCSE management has sent out reminders via e-mail to staff to electronically transmit their petitions to Family Court as soon as they are signed and returned to them. E-mails were sent in February and May 2012 to all operation's case workers.** 6) 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. **Update: While meetings have not been occurring on a scheduled basis, when issues arise related to serving a noncustodial 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 noncustodial parents. **Anticipated Completion Date: *Ongoing***

Agency	**Department of Health and Social Services** **Division of Public Health**
Fiscal Year	**2011**
Reference Number	**11-DPH-01**
Related Prior Year Findings	**10-DPH-03**
Program Name (CFDA No.)	**Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Subrecipient Monitoring**
Criteria	Per the State's Subrecipient Monitoring Procedures for the Water Pollution Control Revolving Fund and the Drinking Water State Revolving Fund "Subrecipients will receive a Compliance Certification form from FAB (Financial Assistance Branch) at the close of their respective fiscal year, which they are required to complete and return." Pass-through entities are required to review financial and performance reports submitted by its subrecipients. They must also ensure that subrecipients receiving more than $500,000 of federal money comply with single audit requirements of A-133. They must also perform certain during the award monitoring of the sub-recipient's use of Federal awards through reporting, site visits, regular contact, or other means. The requirements for subrecipient monitoring are contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), OMB Circular A-133 (§___.225, §___.310(d)(5), §___.400(d)), A-102 Common Rule (§___.37 and §___.40(a)), and OMB Circular A-110 (2 CFR Section 215.51(a)), program legislation, Section 1512(h) of ARRA, 2 CFR Section 176.50(c), Federal awarding agency regulations, and the terms and conditions of the award. Nonfederal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the nonFederal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR Sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of

	compliance (OMB No. 1215-0149).
Condition	We reviewed 2 of the 6 entities subject to Subrecipient Monitoring procedures for the Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) Program, to conform that subrecipient monitoring finding for fiscal year 2009-2010 continued into fiscal year 2010-2011, we noted the following: 1) Subrecipient A-133 Audit Compliance Certifications were not mailed out to the subrecipients in accordance with State policy (telephone conversations were used instead of official confirmation). 2) Documentation over the subrecipients' financial information and A-133 single audit reports was unavailable for testing as the review procedures of the 2010 sub-recipient information was not completed at the time of our audit procedures, 13 months after calendar year 2010 ended.
Cause	Due to staffing constraints, the State was unable to mail the forms in a timely manner. Additionally, supporting documentation with evidence of review (signature/sign-off) is not being maintained to evidence that sufficient during the award period monitoring is being performed.
Effect	Subrecipient monitoring is not being performed and federal funds passed to subrecipients may not be spent in accordance with the grant program.
Recommendation	We recommend that all policies and procedures are followed and that timely monitoring of subrecipient A- 133 audit requirements is performed to ensure they are in compliance with all federal guidelines. We also recommend that the State prepare and maintain any checklists or summaries of review finding when performing site visits to show proper evidence that the site visit is being performed and document all procedures performed during the visit to ensure that the subrecipient is complying with federal regulations. These checklists and summaries should include proper sign off by the individuals performing the site visit and be reviewed by a manager to ensure that the conclusions reached by the preparer are appropriate and that any necessary follow up is being performed if deficiencies were identified. Managers should sign the checklist or summaries as evidence their review.
Questioned Costs	Questioned costs of the $78.2 million sub-granted are not determinable.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235

Corrective Action Plan	The DWSRF assumed direct responsibility for subrecipient monitoring as of October 1, 2011. In preparation for assuming the direct responsibility, the DWSRF took several actions: • In the 4th Quarter of FY2011 the DWSRF hired an Accounting and Auditing Specialist to monitor compliance with program requirements. • In the 4th Quarter of FY2011 Task lists and timetables were developed for the sub-recipient monitoring process. • In the 1st quarter of FY 2012, letters were mailed to sub-recipients detailing the A-133 requirements and requesting the return of the Compliance Certification. All Compliance Certifications have been returned. The first sub-recipient financial information and A-133 single audit reports are arriving. The reports are being reviewed using documented DWSRF procedures.
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	All Compliance Certifications have been returned. A-133 audit reports are being reviewed as the sub-recipient's fiscal year process is completed. Site visits are being scheduled and performed, using the appropriate checklists and summaries.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Health and Social Services** **Division of Public Health**
Fiscal Year	**2011**
Reference Number	**11-DPH-02**
Related Prior Year Findings	**10-DPH-02**
Program Name (CFDA No.)	**Special Supplemental Nutrition Program for Women, Infants and Children (10.557)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Reporting**
Criteria	FNS-798A, Addendum to WIC Financial Management and Participation Report – NSA Expenditures (OMB No. 0584-0045) – State agencies prepare the FNS-798A annually to report: (1) NSA expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined. FNS uses the amounts reported in nutrition education and breast-feeding promotion and support, two of the four functional categories on the FNS-798A, to determine whether the State agencies met the statutory minimum spending level for those functions.
Condition	During our review of the FNS-798A September 2010 Closeout Report, we note that insufficient documentation was maintained in order to ensure accuracy of the amounts reported to the USDA. The administrative costs of $4,652,182 agreed to amounts in First State Financials (FSF) in total and we identified how $4,528,041 of those administrative costs were allocated between the eight functions/activities on the FNS-798A report; however, $124,141 of those administrative costs, could not be determined to which of the eight functions/activities the cost should have been allocated to because there was not a program code assigned for these costs. The WIC Program personnel included this cost of $124,141 in the State Level Expenditures General Administration category.
Cause	Proper supporting documentation was not maintained in order to clearly reconcile $124,141 of expenditure amounts for the WIC Administrative Cost reported in FSF.

Effect	NSA Expenditures for the period being reported may be misstated and not be included in the appropriate function/activities.
Recommendation	We recommend that the program maintain all appropriate supporting documentation and schedules to show how amounts reported on the FNS-798 reconcile to FSF and verify that all WIC all expenditures are assigned a Program Code.
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 part of corrective action (subsequent to last year's audit), DPH put in place written procedures that now include supporting documentation standards. This also includes enhanced supervisory oversight as well as the review and approval of staff's work and the program's financial reports. Unfortunately when this cited report (September 2010 WIC FNS 798A) was prepared, the procedures had not yet been formulated and the critical employee was still out due to illness. It should be stressed that the total amount reflected on the FNS 798A for September 2010 WIC Program Close Out Report agrees with the total expenditures recorded in FSF (the new State accounting system). Total administrative expenditures reported reconcile to FSF. There were administrative expenses reported under general administration because those costs could not be further broken down (i.e., the procedures had not been developed at the time of this report's submission). It should also be pointed out that subsequent FNS 798 and 798A WIC Close Out Reports have been maintained with all supporting documentation from FSF. This information is stored on the WIC shared drive and in hard copy as part of the monthly and closeout documentation.
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 monthly 798 reports and now supported by detailed financial records.

Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Health and Social Services** **Division of Public Health**
Fiscal Year	**2011**
Reference Number	**11-DPH-03**
Related Prior Year Findings	**10-DPH-08**
Program Name (CFDA No.)	**Immunization Cluster (93.268, S-93.712)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Special Tests and Provisions (Control, Accountability, and Safeguarding of Vaccine)**
Criteria	Effective control and accountability must be maintained for all vaccine under the VFC program. Vaccine must be adequately safeguarded and used solely for authorized purposes (42 USC 1396s). This includes administration only to VFC program-eligible children, as defined in 42 USC 1396s (b) (2) (A) (i) through (A) (iv), regardless of the child's parent's ability to pay (42 USC 1396s(c) (2) (C) (iii)).
Condition	During our review of the control, accountability, and safeguarding of vaccine compliance requirements, we noted that none of the 21 site visits we reviewed included an examination of inventory records at the provider's office to ensure proper recording of receipt, transfer, and usage of vaccine. As such, we were unable to determine whether there is proper control, accountability, and safeguarding of vaccine at provider sites.
Cause	The program followed CDC guidance in the program operations guide when determining the procedures provided to the Texas Medical Foundation (TMF) and, as a result, did not require the examination of inventory records as required by federal regulations.
Effect	The program is not monitoring the providers control over the vaccine inventory.
Recommendation	We recommend the program's policies and procedures, and if necessary, the contract between the State and TMF be amended to ensure that inventory records are examined during site visits to ensure the proper recording of receipt, transfer, and usage of vaccine.

Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	During the last Single Audit covering the period July 1, 2009 – June 30, 2010, there were no specific requirements within the CDC Program Operation Guide to examine provider inventory records. The CDC implemented the requirement in January 2011. On March 2, 2011, subsequent to the January 2011 requirement, DPH Immunization Program developed and implemented a policy to address the monitoring, review and documentation of provider inventory records. Since that time, this activity has been part of the required elements of provider monitoring site assessments.
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 actions outlined in the action plan were taken during the FY-12 period after the conditions of the finding were discovered. Subsequently, the program was found to be in compliance during site visits conducted by the contractor who monitors this program (TMF Health Quality Institute).
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Health and Social Services** **Division of Public Health**
Fiscal Year	**2011**
Reference Number	**11-DPH-04**
Related Prior Year Findings	**10-DPH-09**
Program Name (CFDA No.)	**Immunization Cluster (93.268, S-93.712)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Special Tests and Provisions (Record of Immunization)**
Criteria	A record of vaccine administered shall be made in each person's permanent medical record (or in a permanent office log or file to which a legal representative shall have access upon request) (42 USC 300aa- 25) which includes: a. Date of administration of the vaccine; b. Vaccine manufacturer and lot number of the vaccine; and c. Name and address and, if appropriate, the title of health care provider administering the vaccine
Condition	During our review of the Record of Immunization compliance requirements, we noted that for 12 out of 21 Texas Medical Foundation (TMF) site visit reports, the provider was not in compliance with the requirements of Record of Immunization. Per discussion with the contract administrator, only verbal discussions were held with the providers to inform them that sufficient record of immunization requirements were not met. As no formal documentation of follow-up procedures was maintained, we were unable to determine if sufficient follow-up action was taken, as required by federal requirements.
Cause	Based on guidance from the CDC indicating that immunization records are not high priority, the procedures provided to the Texas Medical Foundation (TMF) by the Department of Public Health did not stipulate that more detailed follow up was required for this type of noncompliance.
Effect	The program is not in compliance with federal regulations.

Recommendation	We recommend the program's policies and procedures, and if necessary, the contract between the State and TMF be amended to ensure that written documentation exists of any follow up actions regarding noncompliance with federal regulations.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	In March 2011, the DPH Immunization Program developed a handout outlining the requirements for documenting the administration of immunizations. Since that time, the contractor who conducts monitoring of this program (TMF Health Quality Institute) has been required to distribute a copy of the handout (that outlines the documentation of vaccine administration) to each provider and review it with them. In addition, the DPH Immunization Program has developed a feedback form to summarize provider site assessment visits. The contractor completes the feedback form, which will document the provisions of and review of the requirements for documenting the administration of vaccines. The contractor submits a copy of the feedback form to the Immunization Program for each site assessment conducted. The Immunization Program reviews the feedback forms and communicates any required corrective action to the providers. The information is also sent to the CDC and maintained in their database. The developed handout and feedback form are available for review for the auditors.
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 actions outlined in the action plan were taken during the FY-12 period after the conditions of the finding were discovered. Subsequently, the program was found to be in compliance during site visits conducted by the contractor who monitors this program (TMF Health Quality Institute).
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Health and Social Services** **Division of Public Health**
Fiscal Year	**2011**
Reference Number	**11-DPH-05**
Related Prior Year Findings	**10-DPH-01**
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)	**Allowable Costs (Effort Reporting)**
Criteria	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).

Condition	During our testwork over time and effort reporting, we noted that for 1 out of 65 employees tested, time was split between the Drinking Water State Revolving Fund and another federal program; however, an appropriate time and effort report was not obtained.
Cause	The Program does not have a process to properly document in time and effort report the employee's split time on the federal grants.
Effect	Salaries and benefits of employees who work on federal programs are being charged to federal grants without proper documentation.
Recommendation	We recommend that the Program properly maintain effort report for each employee's time allocated between grants.
Questioned Costs	Questioned costs are $1,280, which represents the salary paid to the employee for the payroll period tested. The total expenditures for the 65 employees tested in our sample were $70,732, and the total expenditure population for the employees subject to our sampling was $822,579 for the fiscal year ended June 30, 2011.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	An appropriate time and effort report was not maintained to support an employee who was split coded between two federal programs for the quarter in question. This was an oversight in that the employee was transitioning between the two federal programs. As part of the transition the employee did work on both programs during that quarter and is now being properly charged 100% to one federal program.
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 employee who was split coded between two federal programs is no longer working on both programs. No other employees match the condition. In the future, if an employee is not working 100% on one federal program, a time and effort report will be maintained to support the period.

Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Health and Social Services** **Division of State Service Centers**
Fiscal Year	**2011**
Reference Number	**11-SSC-01**
Related Prior Year Findings	**10-SSC-01**
Program Name (CFDA No.)	**Low-Income Home Energy Assistance Program (93.568)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Allowable Costs, 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: The auditee shall: b) Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and provision of contracts or grant agreements that could have a material effect on each of its programs. c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs. U.S. Office of Management and Budget Circular A-87, Cost Principle for State, Local and Indian Tribal Government (2 CFR Part 225) Appendix A, Section C, Basic Guidelines, state in part: 1. Factors affecting allowability of costs. To be allowable under Federal awards, cost must meet the following general criteria: a. be allocable to Federal awards under the provision of this circular… j. be adequately documented In addition, allowable costs under the grant are limited to: 1. Costs used to assist eligible households to meet the costs of home energy, i.e., heating or cooling their residences (42 USC 8621(a) and 8624(b)(1)). 8621(a). 2. Costs used to intervene in energy-related crisis situations, as defined by the grantee

	(42 USC 8623(c) and 8624(b)(1)). 3. Costs used to conduct outreach activities (42 USC 8624(b)(1)). 4. Costs used to provide low-cost residential weatherization and other costs-effective energy-related home repair (42 USC 8624(B)(1)). 5. Costs used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance, including needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)). 6. Costs used to identify, develop, and demonstrate leveraging programs (45 CFR Section 96.87(c)). 7. No costs may be for the purchase or improvement of land, or the purchase, construction, or permanent improvement (other than low-cost residential weatherization or other energy-related home repairs) of any building or other facility (42 USC 8628). 8. Leveraging incentive awards must be used to increase or maintain heating, cooling, energy crisis and weatherization benefits for low-income persons (45 CFR Section 96.87(j)). 9. Leveraging incentive award funds may not be used for planning, developing, or administering the LIHEAP Program (45 CFR Section 96.78(j)). 10. LIHEAP grantees may use some of all of the rules applicable to the Department of Energy's Weatherization Assistance for Low-Income Persons program (CFDA 81.042) for their LIHEAP funds spent on Weatherization (42 USC 8624 (c)(1)(D)).
Condition	The Division's policy is to perform a review of expenditure reimbursement requests submitted from the subrecipients to meet the requirements noted in the compliance supplement. The prior year audit found the Division did not review or maintain sufficient evidence with the invoice to ensure the expenditures were in accordance with the applicable federal regulations. We found for 7 out of the 65 expenditures selected for testwork for fiscal year 2011 there was evidence of the Division's review; however; the Division did not review or maintain sufficient evidence with the invoice to ensure the expenditures were in accordance with the applicable federal regulations. We note that the Division implemented a corrective action plan effective January 2011 to require their subrecipients to submit sufficient supporting documentation with their invoices. The 7 expenditures without sufficient supporting documentation with the invoice were all dated prior to the January 2011 corrective action. The 7 expenditures totaled $1,021,549 out of the $7,675,828 sampled. The total expenditure population was $12,724,456. We also note that LIHEAP performed monitoring procedures during the year over the claimants receiving LIHEAP funding to ensure they were eligible for services and the benefit amount was calculated correctly. We note out of the 674 eligibility files selected and tested by the LIHEAP Program, 5 cases had the eligibility determination calculated to be incorrect with the total net amount paid to the claimants to be immaterial to the Program.

Cause	The Division was in process of implementing new policies and procedures pertaining to the review of program expenditures incurred by the subrecipients prior to reimbursement given that the corrective action date had not been implemented yet for the new fiscal year.
Effect	The Division did not fulfill its responsibilities related to allowable costs; therefore program expenditures may be spent on unallowable activities.
Recommendation	We recommend that the Division continue to enhance its current policies and procedures over subrecipient reimbursements of allowable costs and subrecipient monitoring to ensure that its subrecipients remit adequate documentation to allow the Division to ensure federal allowability requirements have been met.
Questioned Costs	Seven samples did not have proper support which totaled $1,021,549.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	As stated in the audit finding, the Division implemented a corrective action plan effective January 2011 to require sub-recipients to submit sufficient supporting documentation with their invoices. The 7 expenditures without sufficient supporting documentation with the invoice were all dated prior to the January 2011 corrective action plan. In addition, we will obtain and review the supporting documentation for the 7 expenditures totaling $1,021,549 to verify they were for allowable activities.
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 is a status of each of the expenditures making up the $1,021,549 in questioned costs: $12,870.00 – Voucher 68370 dtd 9/13/2010 paid to FSCAA invoice #SC-10 dtd 8/17/2010. Supporting documentation was obtained and reviewed. Expenditures were for allowable costs. $11,658.00 – Voucher 68414 dtd 9/13/2010 paid on FSCAA invoice #SC-01 dtd 7/26/2010. The supporting documentation was obtained and reviewed. Expenditures were for allowable costs. $530,873.45 – Voucher 95396 dtd 9/30/2010 paid on Catholic Charities invoice

	#10-FAP-9/24/2010. Our review of documentation pertaining to this expenditure revealed the following: • Documentation did not support the $530,873.45 expenditure charged to LIHEAP heating benefits on State voucher 95396 dated 9/30/2010. • Catholic Charities refunded $375,873.45 of the $530,873.45 on 9/30/2011 leaving a balance of $155,000. • The $375,873.45 refunded by Catholic Charities reduced the State's LIHEAP expenditures for FFY2011 and was included in the $1,176,026.70 unobligated funds in excess of the carryover limit. The $1,176,026.70 reported to ACF in the FFY2011 Carryover and Reallotment Report is to be de-authorized by ACF. • The remaining $155,000 will be refunded to the State by Catholic Charities when they complete their fiscal year end reconciliation of LIHEAP receipts versus vendor payments. The State, in-turn, will dispose of the $155,000 in a manner to be determined by ACF. $317.75 – Voucher 106266 dtd 10/7/2010 paid on FSCAA invoice #SC-18 dtd 9/29/2010. Supporting documentation was obtained and reviewed. Expenditures were for allowable costs. $630.00 - Voucher 249019 dtd 1/20/11 paid on Catholic Charities invoice #11-FAP-1/9/2011. The supporting documentation for Blue Hen Fuel Company was obtained and reviewed. The expenditure was for an allowable cost. $465,200.00 – Voucher 222740 dtd 12/29/2010 paid on Catholic Charities invoice #11-FAP-12/15/10. Supporting documentation was obtained and reviewed. The expenditures were for allowable costs.
Anticipated Completion Date (if not Fully corrected).	End of CY2012, contingent on receiving ACF's determination of the disposition of the $155,000 cited above.

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Health and Social Services** **Division of State Service Centers**
Fiscal Year	**2011**
Reference Number	**11-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)	**Reporting (Special Reporting)**
Criteria	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	Some attributes/components of the LIHEAP Household Annual Report for the period October 1, 2009 –September 30, 2010 could not be agreed to underlying supporting documentation and/or supporting documentation could not be provided or was not sufficient for our purposes for some of the attributes/components including: • Heating: ‘Under 75% Poverty’, ‘Age 2 years or under’, and ‘Age 3 years thru 5 years’ data does not agree to support while ‘Disabled’ and ‘Age 5 years or under’ data could not be provided • Winter/Year Round Crises: ‘5 Years or Under’ does not agree to support • Weatherization data for ‘LIHEAP Assisted Households’ support could not be

	provided. • For the 'All applicant households regardless if assisted' section of the Report, data could not be provided or data to be provided was not sufficient underlying support.
Cause	The report uses various underlying supporting documentation and there were some errors when consolidating the different data elements together for the report. In addition, some of the support could not be located or the underlying data elements of the support had not been provided to LIHEAP by Catholic Charities at the time the report was created and submitted.
Effect	The LIHEAP Program is reporting incorrect data to the Federal Government in terms of applicant information.
Recommendation	We recommend that the LIHEAP Program enforce policies and procedures that the review process of reports includes ensuring reports agree to underlying support. We also recommend that LIHEAP ensure all underlying elements that are utilized to create the report are provided by Catholic Charities 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	We will evaluate how household data is gathered, maintained and reported. We will make necessary improvements in operating procedures to ensure household data is properly accumulated, summarized, and reported. We will maintain documentation to support household data presented on the LIHEAP Household 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 Division and Catholic Charities are currently transitioning LIHEAP client application data from an application maintained by an outside data processing vendor to an in-house Client Assistance Program System (CAPS). The outside vendor application (called CAPTAINS) had some limitations in reporting statistical data needed for the LIHEAP Household Report. As a result, some data had to be gathered manually and some data was estimated. The CAPS has been designed and engineered to provide all the required

	household data electronically. However, FFY 2012 will be the first year a complete set of household data will be available in CAPS to prepare the LIHEAP Household Report. In the mean-time, the Division continued to use CAPTAINS generated household reports along with manually prepared reports and some estimated household data to prepare the FFY 2011 LIHEAP Household Report. We are currently performing a review of the FFY 2011 LIHEAP Household Report to verify the accuracy of reported data and make improvements, where necessary, in the way household data was gathered, documented and presented. An amended report will be submitted to ACF upon completion of our review.
Anticipated Completion Date (if not Fully corrected).	We anticipate completing our review of the 2011 LIHEAP Household Report by July 31, 2012. We anticipate the CAPS will generate electronic reports for documenting household data that will be reported in the 2012 LIHEAP Household Report due 8/31/2012.

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Health and Social Services** **Division of State Service Centers**
Fiscal Year	**2011**
Reference Number	**11-SSC-03**
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)	**Reporting, Period of Availability**
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% 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% 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 limits. 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.

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Condition	The Division's internal auditor found LIHEAP expenditures obligated in FFY 2011 were incorrectly charged to the FFY 2010 grant. An analysis of the expenditures, after adjustments for charging expenditures to the correct FFY grant, revealed the Division had an unobligated balance of $4.5 million in the FFY 2010 grant as of 9/30/10. According to the LIHEAP regulations, only 10% of funds allotted for the FFY 2010 grant allowing $1.7 million to be carried over for use in FFY 2011 as well as $280k that was awarded to the Program late in the year. As a result, $2.61 million in FFY 2010 grant funds were not available for use in FFY2011. The FFY 2010 Carryover and Reallotment Report submitted by the Division to HHS on 8/1/10 showed the Reallotment amount as $0 when the amount reported should have been $2.61 million.
Cause	The LIHEAP regulations regarding "Time period for obligation and expenditure of grant funds" were interpreted by the Division's grant program management as being obligated with the submission of the State Plan detailing planned expenditures. State fiscal policy, however, determines obligations to occur when a purchase order has been established to encumber funds. As a result of the misinterpretation, LIHEAP obligations and expenditures were not assigned to the proper FFY grant period in accordance with LIHEAP period of availability criteria.
Effect	The LIHEAP Program did not obligate 90% of the FY10 grant as required during the first fiscal year and thus must return the unobligated amount to the ACF.
Recommendation	We recommend that the LIHEAP Program ensure expenditures are being coded in the system to the correct grant and that reports submitted agree to first state financial system data before being submitted. We also recommend that the LIHEAP Program ensure they are obligating grant award funds by the required time frames permitted.
Questioned Costs	There are no questioned costs associated with this finding, only a reduction in available funding resources.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	Corrective action already taken includes (1) preparing spreadsheets that schedule LIHEAP obligations for the period 10/1/2008 through 12/31/2011 that reconcile with the State's accounting records; (2) allocating the obligations on the spreadsheets to the proper federal fiscal year; (3) calculating the federal fiscal year end unobligated balance, carryover amount, and reallotment amounts for federal fiscal years 2008, 2009, 2010, and 2011; and (4) recoding obligations in the current State Accounting System to the proper federal fiscal year accounts. We informed the top federal LIHEAP officials at the Office of Community Services Division of Energy Assistance, Administration for Children and Families, DHHS

	on December 7, 2011 of the issue of carrying over unobligated LIHEAP awards to subsequent FFY's in excess of the 10% carry over limit. We met with the federal LIHEAP officials several times to (1) review with them how obligations should have been charged to the proper FFY grant awards; (2) review with them and adjust our spreadsheets described above; (3) obtain their concurrence on the amount of unobligated funds that should be deobligated; and (4) discuss with them how past Federal Financial Reports and Carryover and Reallotment Reports should be corrected and resubmitted to resolve this issue. Corrective action in progress includes preparing and submitting corrected Federal Financial Reports and Carryover and Reallotment Reports. In addition, LIHEAP Program staff will be trained on how to prepare spending plans and Carryover and Reallotment Reports that comply with the LIHEAP regulations. Fiscal staff have been trained on how to set up grant projects in the State's new accounting system, First State Financial, so LIHEAP obligations will be charged to the proper FFY, carryover funds will not exceed the 10% limit, and Federal Financial Reports will reflect the proper federal expenditures and unobligated balance.
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 corrective action described above, we submitted corrected and delinquent Federal Financial Reports for the federal fiscal years 2008 through 2011 in the federal "On Line Data Collection System" on 2/28/2012 in accordance with specific instructions from federal officials at the Office of Grants Management, Division of Mandatory Grants. We submitted corrected Carryover and Reallotment Reports on 2/28/2012 following the specific instructions of Administration for Children and Families Federal Officials. We continue to wait for federal officials at ACF, DHHS to deobligate the LIHEAP funds. Additionally, LIHEAP Program staff are currently being trained on how to prepare spending plans and Carryover and Reallotment Reports.
Anticipated Completion Date (if not Fully corrected).	2/28/12 (with submission of corrected reports). We estimate staff training to be completed by 9/30/12.

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Health and Social Services** **Division of State Service Centers**
Fiscal Year	**2011**
Reference Number	**11-SSC-04**
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)	**Reporting (Financial Reporting)**
Criteria	The LIHEAP Program is required to submit the SF-269A, Financial Status Report, annually for the period October 1, 2009 – September 30, 2010 for each type of grant award received. In addition, per Transmittal No. LIHEAP-AT-2011-02, separate SF-269A reports must be filed for block grant funds, emergency contingency funds, leveraging incentive funds, and Residential Energy Assistance Challenge Program (REACH) funds that are awarded each year to LIHEAP grantees.
Condition	The original signed SF-425 Reports for federal fiscal year 2009 and 2010 for LIHEAP awards could not be provided and as such there was no evidence of management's review. Further, while federal fiscal year 2009 LIHEAP awards had both Block Grants and Emergency Contingency Grants during the year, only one report was submitted combining both grant types on one report. Further, cash receipts per the report were $18,736,443.90 while FSF reports showed $18,214,260.54 for cash receipts as of 9/30/10 resulting in an over reported amount of $522,183.36. The Federal fiscal year 2010 for LIHEAP awards had block grants, leveraging incentive grants, and emergency contingency grants, however, only one report was submitted for the block grant fund.
Cause	LIHEAP Personnel were learning to use the new First State Financial general ledger system to support and create the reports. In addition, there was a lack of communication between Program personnel who receive updates from the Fed of LIHEAP reporting requirements and the fiscal personnel who are required to submit the reports.

Effect	The LIHEAP Program is reporting incorrect amounts to the Federal Government. In addition, the LIHEAP Program is not reporting the correct amount of expenditures for block grant funds, emergency contingency funds, and leveraging incentive funds which could affect the amount of funds given in subsequent years.
Recommendation	We recommend that the LIHEAP Program enforce policies and procedures that all reports need to be reviewed, signed and kept for record keeping and the review process includes ensuring reports agree to FSF support. We also recommend that there is more communication between program and fiscal personnel during the year of changes in requirements.
Questioned Costs	There are no questioned costs associated with this finding, only inaccurate financial reports.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	The Division of State Service Centers is working with the federal Office of Grants Management, Division of Mandatory Grants in submitting corrected LIHEAP federal financial reports for the federal fiscal years 2008 through 2011. See corrective action for finding, 11-SSC-03 Reporting POA Current Year Findings, for further information.
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	We submitted federal financial reports for the federal fiscal years 2008 through 2011 in the federal "On Line Data Collection System" in accordance with specific instructions from federal officials at the Office of Grants Management, Division of Mandatory Grants. In addition we are maintaining signed copies of the federal financial reports to provide evidence they were reviewed and approved. Improved communications between programmatic and fiscal personnel has been instituted via periodic meetings that include the DSSC Director, programmatic and fiscal personnel to ensure that changes in requirements are communicated to key programmatic and fiscal staff.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Labor** **Division of Vocational Rehabilitation**
Fiscal Year	**2011**
Reference Number	**11-DOL-01**
Related Prior Year Findings	**10-DOL-02**
Program Name (CFDA No.)	**Vocational Rehabilitation Cluster (84.126, 84.390)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Eligibility**
Criteria	1. Eligibility for Individuals According to 29 USC 722(a)(6), the State VR Agency must determine whether an individual is eligible for VR services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless: (a) Exceptional and unforeseen circumstances beyond the control of the State VR agency preclude making an eligibility determination within 60 days and the State agency and the individual agrees to a specific extension of time; or (b) The designated unit is exploring an individual's abilities, capabilities, and capacity to perform in work situations under paragraph (2) (b). 2. Certifying Eligibility According to paragraph 5.2.1 of the DVR Eligibility Manual, The Certification of Determination (Form IWRP-2/IPE-2) must be dated and signed by the Counselor. This form is part of the IPE and must be appropriately included in the client file.
Condition	We note that 3 out of 65 client eligibility determinations were not approved within the required 60 day timeframe. While 1 selection had documentation of an approved extension for 30 days, eligibility was still not determined in the extended time allowed with eligibility being determined 33 days after the 30 day extension allowed. The other two selections were not approved in the 60 day timeframe and had no approved extensions. One selection was approved 20 days after the 60 day time frame allowed while the other selection was made 191 days after the 60 day timeframe allowed. In addition, we note that for 3 out of 65 clients selected for testing, there was no evidence of

	proper review of the Certificate of Determination. Review should be evidenced by the dated signature of the assigned counselor and the Certificate of Determination must be included in the service record.
Cause	There was a large increase of over 1,200 more employment development plans being developed in fiscal year 2011 compared to 2010 and more than 600 applicants implementing their plans this year compared to 2010. While the sheer volume of cases increased the staffing has stayed relatively the same with the number of cases case managers are in charge increasing by more than +50 cases per manager from 2011 to 2010.
Effect	The Department of Labor (DOL) could potentially not be providing services to eligible clients within the timeframe required by federal regulations. Also, without a formal management review and sign-off DOL could inappropriately document the Certificate of Determination.
Recommendation	We recommend that the DOL continue to utilize its resources to monitor the status of eligibility determinations with aging reports and a tickler system to ensure they are made within the required 60-day timeframe and client files are properly reviewed and dated, unless exceptions granted by federal regulations occur and are properly documented in the client file. In addition, we recommend that the DOL reinforce both State and Federal requirements to case managers working on case files.
Questioned Costs	There were no questioned costs as each of these individuals was eventually deemed eligible.
Agency Contact Name	Kris Brooks, DOL Controller
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	1. DVR Director and Deputy Director will address this meeting with District Administrators. District Administrators will be directed to review the aging report on a monthly basis and follow up with individual cases that are nearing 60 day eligibility deadline. 2. DVR will provide training to counselors on eligibility determination and best practices in case management. 3. DVR Deputy Director will also spot check aging report, identify cases near 60 deadline, and follow up with individual counselors and supervisors.
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	DVR completed the corrective action plan and will continue to closely monitor the status of eligibility determinations. Meetings were held throughout the year, with the earliest being October 20, 2011, re-enforcing the 60 day timeline compliance requirements, amongst other items. A meeting was held April 4, 2012 with fiscal DVR counselors to reinforce the 60 day timeline again.
Anticipated Completion Date (if not Fully corrected).	April 4, 2012

Agency	**Department of Labor** **Division of Employment & Training**
Fiscal Year	**2011**
Reference Number	**11-DOL-02**
Related Prior Year Findings	**10-DOL-08**
Program Name (CFDA No.)	**Workforce Improvement Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Eligibility**
Criteria	Participants receiving eligibility of WIA services must meet the following requirements: 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). Age eligibility for youth services funded by ARRA is increased from 21 to 24 years of age. (ARRA Title VIII(2), 123 Stat 173). WIA is required to determine eligibility for all participants based on the criteria above, in addition to correctly calculating the benefit to be paid to the participant and ensuring the benefit is discontinued with eligibility expires. Furthermore, in accordance with State Policy an Employment Development Plan should be completed and reviewed for eligible participants.
Condition	The Program's Policy is that all Employment Development Plans (EDP) must be reviewed by management although the audit policy at the time did not require a signature on the face of document. We also note that eligibility checklist accompany each client file and detail eligibility criteria that must be met but are only used as a management tool and are not required per WIA's policy. We note that in the prior year, there was a finding for EDP's and eligibility checklists not having evidence of management review. Per review of the case files for the 2011 audit, we noted the following: • For 6 of the 65 EDPs reviewed; although the clients were eligible there was no evidence of proper review by management, which should be evidenced by a signature on the face of the documents. • For 1 of the 65 files selected, the participant was determined eligible despite failing to provide evidence of citizenship and eligibility to work in the form of a copy of the applicant's social security card which is required per Eligibility Requirements. We note that for the 6 EDP's that were not signed, the service dates occurred prior to the issuance of the prior year finding and thus the WIA Program had not put into place a corrective plan as of those service dates with the last one occurring January 2011.
Cause	The Division was in process of implementing new and reinforcing old policies and procedures pertaining to the review of EPD's given that the corrective action date had not been implemented yet for the new fiscal year.
Effect	Claimants who were not eligible under WIA criteria may have inappropriately received benefits from the Program.

Recommendation	The WIA Program should continue to reinforce policies and procedures relating to management review of EDP are including the requirement of management's signature on the face of the EDP.
Questioned Costs	There are no questioned costs based upon the fact that no expenditures were incurred during the period 7/1/10 – 6/30/11 for the recipient who was not determined to be eligible.
Agency Contact Name	Kris Brooks, DOL Controller
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	DET agrees to revise our policy and procedures to include a supervisor signature on the document. This will be completed March 1, 2012.
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 has revised the policy and procedure to include a supervisor signature on the EDP as of July 19, 2012.
Anticipated Completion Date (if not Fully corrected).	July 19, 2012

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Labor** **Division of Employment & Training**
Fiscal Year	**2011**
Reference Number	**11-DOL-03**
Related Prior Year Findings	**10-DOL-06**
Program Name (CFDA No.)	**Workforce Improvement Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278)**
Type of Finding	**Noncompliance, Material Weakness**
Compliance Requirement(s)	**Subrecipient Monitoring**
Criteria	*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. *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. *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. *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the

	pass-through entity's ability to comply with applicable Federal regulations. *Central Contractor Registration* - 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.
Condition	For 1 out of 5 subrecipients selected for testing, no monitoring was performed by the WIA Program during FY11. For the remaining four subrecipients, three of the monitoring reports that are utilized to monitor financial status of the subrecipients had not been reviewed by management. As had been done in prior years, the Internal Auditor who performs the monitoring visit discussed with the supervisor results of the monitoring visits, but there is no formal documentation showing they reviewed the monitoring reports. We note that all three monitoring reports occurred before or near when the corrective action plan from the finding last year was being put into place, so old policies and procedures were still being followed. The subrecipient not monitored during the year had expenditures of $84,185.
Cause	The Program was in still in process of implementing new procedures and policies over subrecipient monitoring that did not go into place until after the new fiscal year began. As such, the Program was still following prior established policies and procedures resulting in not having adequate controls in place to ensure it monitors subrecipients in accordance with the criteria noted above or maintains proper documentation to support they effectively monitored subrecipients.
Effect	The Program is not fulfilling its subrecipient monitoring responsibilities and 17 subrecipients expending $2,008,475 in the fiscal year could potentially not be meeting federal requirements.
Recommendation	The Department of Labor should adhere to recently updated policies and procedures to ensure that monitoring reports are appropriately being reviewed and the minimum percentage of subrecipients are being monitored as approved through prior year action plans.
Questioned Costs	Questioned costs for the 1 subrecipient not monitored are unknown.
Agency Contact Name	Kris Brooks, DOL Controller
Agency Contact Phone Number	(302) 761-8024
Corrective Action	DET agrees to adhere to the revised policies and procedures put into effect November 15,

Plan	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	DET is following new policies and procedures effective November 15, 2011.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Labor** **Division of Employment & Training**
Fiscal Year	**2011**
Reference Number	**11-DOL-04**
Related Prior Year Findings	**10-DOL-05**
Program Name (CFDA No.)	**Workforce Improvement Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Reporting**
Criteria	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).
Condition	Based on the review of the financial reports required to be submitted we noted the following issues: • While three out of 48 9130 Reports tested were properly authorized and reviewed, the reports did not agree to supporting documentation including the general ledger. The first 9130 Report incorrectly under reported administrative expenses by $44,293. The second 9130 Report incorrectly under reported the Federal Share of Expenditures by $20 while the third 9130 Report incorrect overstated the Federal Share of Expenditures by $20. • The annual 9091 Report was properly authorized and reviewed; however, the report did not agree to supporting documentation including First State Financials (FSF)

	support. The total variance was $2,988.
Cause	WIA Personnel were trying to get used to and learn FSF and what general ledger system support to use to create the reports.
Effect	The Program is not properly reporting expenditures to the government which could result in adjustments to future grants received from the U.S. Department of Labor.
Recommendation	The Program should consider adding an additional level of review to ensure reports are properly presented and agree to supporting documentation.
Questioned Costs	Three of the 49 reports tested were underreported so there are no questioned costs. The fourth report has questioned costs of $20 as the report was overstated by $20.
Agency Contact Name	Kris Brooks, DOL Controller
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	DET added a second level of review to the current policy on July 1, 2011 and agrees to adhere to this policy.
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 is following new policy and procedures with an updated date of June 15, 2012.
Anticipated Completion Date (if not Fully corrected).	June 15, 2012

Agency	**Department of Labor** **Division of Employment & Training**
Fiscal Year	**2011**
Reference Number	**11-DOL-05**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Workforce Improvement Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278)**
Type of Finding	**Noncompliance, Material Weakness**
Compliance Requirement(s)	**Allowable Costs (Effort Reporting)**
Criteria	Per Circular A-87, Item #8, Compensation for Personal Services, Section (e): (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	We noted that payroll funding reconciliations used to reconcile PHRST and Auto time were performed for all four quarters during the fiscal year. While adjustments were made on 'as needed basis' during the year for certain appropriations, the adjustments calculated per the reconciliations have not been recorded to First State Financials although they are required annually per regulations. As such, 49 out of 65 samples tested that required payroll funding adjustments to be booked were not recorded with the net effect being $291. The total adjustment needed to reconcile all four quarter reconciliations is $11,490.
Cause	Payroll funding reconciliations were not made in a timely basis to year end.
Effect	The Program is not properly reporting payroll expenditures for the year ended June 30, 2011 since the PHRST data has not been updated to account for the adjustments needed during the year.

Recommendation	The Program should implement 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 as the federal grant was undercharged.
Agency Contact Name	Kris Brooks, DOL Controller
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	DET agrees to implement policies and procedures regarding payroll funding reconciliations ensuring that corresponding adjustments will be reviewed and adjusted in the First State Financial system in a timely manner after year end.
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 has implemented policies and procedures to review and make adjustments to payroll funding reconciliations within 90 days of the end of the fiscal year.
Anticipated Completion Date (if not Fully corrected).	Ongoing

Agency	**Department of Labor** **Division of Employment & Training**
Fiscal Year	**2011**
Reference Number	**11-DOL-06**
Related Prior Year Findings	**10-DOL-09**
Program Name (CFDA No.)	**Workforce Improvement Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Reporting (Section 1512)**
Criteria	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.
Condition	Per review of the DOL WIA 1512 Reports for subrecipients for the reporting period ended March 31, 2011, we noted the following errors in the subrecipient tabs for the 'Total Sub Award Funds Disbursed' amounts reported: • City of Wilmington was erroneously over-reported by $19,727.63 • Sussex Technical School District was under reported by $10,237 • Delaware Technical Community College-Terry Campus was under reported by $630.51 • Delaware Technical Community College-Terry Campus-Youth was under reported by $7,761.08 • Delaware Technical Community College-Wilmington/Stanton Campus was under reported by $42,548.81 • Career Team LLC was under reported by $825.19 • Career Team LLC was under reported by $4,765.53 The net effect of these errors amounts to $47,040.49 of under reported expenditures. We also note that 'Total Federal Amount ARRA Funds Received/Invoices' was over reported per this report by $232,985 ($4,902,787 of ARRA Funds Received/Invoiced was reported and $4,669,802 was reported instead). The March 31, 2011 Section 1512 Report for NEG Autoworker Reemployment – Dual Enrollment over reported the 'Total Federal Amount ARRA Funds Received/Invoiced" amount by $78,782 ($785,758 of ARRA Funds Received/Invoiced was reported and $706,976 should have been reported).
Cause	The department was still in process of implemented new policies and procedures over 1512 Reporting based on prior year findings.
Effect	The March 31, 2011 1512 Reports submitted by DOL, Division of Employment and Training contained significant reporting errors. Continued noncompliance with ARRA reporting requirements could result in termination of the award, reclaiming of funds, and potential punitive actions.
Recommendation	We recommend that the DOL, Division of Employment and Training reinforce their policies and procedures over management's review process to ensure that the 1512 Report is free of errors before submission.
Questioned Costs	The total reporting errors as of March 31, 2011 were: • $19,727.63 of subrecipient expenditures which were over-reported on the WIA Youth/Adult/Dislocated Workers Formula 1512 Report. • Total Federal Amount ARRA Funds Received/Invoiced was over reported by

	$232,985 for the WIA Youth/Adult/Dislocated Workers Formula Grants. • Total Federal Amount ARRA Funds Received/Invoiced was over reported by $78,782 for the NEG Autoworker Re-employment Grant.
Agency Contact Name	Kris Brooks, DOL Controller
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	DET revised policies and procedures as a result of the FY11 Single Audit findings. We attempted to revise and correct the 6/30/11 report. Our request was denied. USDOL advised us to make all corrections during closeout.
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 made all corrections to the 2011 1512 ARRA report as of September 30, 2011.
Anticipated Completion Date (if not Fully corrected).	September 30, 2011

Agency	**Department of Labor** **Division of Employment & Training**
Fiscal Year	**2011**
Reference Number	**11-DOL-07**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Workforce Improvement Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Earmarking**
Criteria	a. Statewide Activities (1) State Reserve – A State may reserve up to 15% of the amounts allotted for Adult, Dislocated Worker, and Youth Activities. The amounts reserved may be combined and expended on activities described in 20 CFR Sections 665.200 and .210 without regard to funding source (20 CFR Section 667.130). (2) Administrative Cost Limits – A State may spend up to five percent of the amount allotted for the State's administrative costs (i.e., one-third of the 15 percent State Reserve described in the preceding paragraph) (20 CFR Section 667.210). The term ―administrative costs is defined at 20 CFR Section 667.220. The funds provided for administrative costs by one of the three funding sources (Adult, Dislocated Worker, and Youth Activities) can be used for administrative costs of the other two sources. b. Dislocated Worker Activities – Rapid Response Statewide Rapid Response – The State must reserve for rapid response activities a portion of funds, up to 25%, allotted for dislocated workers. The funds are used to plan and deliver services to enable dislocated workers to transition to new employment as quickly as possible, following either a permanent closure or mass layoff, or a natural or other disaster resulting in a mass job relocation (20 CFR Section 667.130(b)). c. Local Areas (1) Administrative Cost Limits - A local area may expend no more than ten percent of the Adult, Dislocated Worker, and Youth Activities funds allocated to the local area under Sections 128(b) and 133(b) of the Act for administrative costs. The funds provided for administrative costs by one of the three fund sources (Adult, Dislocated Worker,

	Youth Activities) can be used for administrative costs of the other two sources (20 CFR Section 667.210(a)(2)). (2) Low-Income Youth – A minimum of 95% of eligible participants in Youth Activities must meet the criteria of disadvantaged low-income youth as defined in 29 USC 2801(25) (20 CFR Section 664.220).
Condition	The WIA Program maintains spreadsheets for WIA Adult, Dislocated Worker and Youth that detail the various earmarking requirements the programs must meet. The spreadsheets are updated and revised on a quarterly basis during the year when the WIA Program creates the 9130 Reports that must be submitted every quarter to ensure the spreadsheets detail the most recent spending during the quarter. We note that when recalculating the earmarking percentages based on the amounts in the spreadsheets for Adult, Dislocated Worker and Youth Programs, we found that the earmarking percentages had been met for all current year Notice of Obligation awards. However, First State Financials data could not be provided that agreed to the amounts in the spreadsheets. Therefore, we were unable to determine if the amounts on the spreadsheets represent actual expenditures during the year and thus if earmarking percentages were actually met with actual expenditures incurred during the year.
Cause	The client did not have the proper reports are set up within First State Financials to properly track earmarking requirements that must be met per the compliance supplement.
Effect	The WIA Program could potentially not be meeting earmarking requirements as required by the Federal Government for their Adult, Dislocated Worker and Youth Programs.
Recommendation	We recommend that the Program ensure First State Financials is set up in enough detail to allow reports to be printed from the system that can be agreed to earmarking spreadsheets maintained by the agency.
Questioned Costs	The total questioned costs are undeterminable as we cannot verify the amounts on the spreadsheets to the underlying First State Financials data.
Agency Contact Name	Kris Brooks, DOL Controller
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	DET will implement a solution in the First State Financial system to ensure that earmarking is tracked to meet the requirements per the compliance supplement.

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 new process has been implemented prior to July 1 in the FSF system with the loading of the FY13 grants.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Delaware National Guard**
Fiscal Year	**2011**
Reference Number	**11-DNG-01**
Related Prior Year Findings	**10-DNG-04**
Program Name (CFDA No.)	**National Guard Military Operations and Maintenance (O&M) Projects (12.401)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Reporting, Cash Management**
Criteria	Per National Guard Regulation 5-1 (April 2008), Chapter 10, Section 10-5, the Delaware National Guard is required to report actual expenditures, requested for reimbursement, on the Standard Form 270 (SF-270), Financial Status Report, and the Public Voucher for Purchases and Services Other than Personal Form (SF-1034), and to submit these reports with supporting documentation of the amounts expended.
Condition	Based on our review of the 32 reports submitted by the Delaware National Guard for the months of December 2010 and June 2011 for the National Guard O&M Projects program, we noted the federal share requested for reimbursement for schedule K-15-1001 was overstated by $2,117.
Cause	The same transaction was included in the reimbursement request for both Schedule L-03-1001 and K-15-1001 and was, therefore, double counted in the calculation of the federal share requested for reimbursement.
Effect	DNG did not provide proper oversight during the review process for SF-270 reports to ensure that all amounts reported appropriately reconciled to supporting FSF reports.
Recommendation	We recommend that DNG reinforce policies and procedures regarding the review of financial reports to ensure that all amounts included in the financial reports properly reconcile to supporting FSF reports (and that each expenditure is only included in one SF-1034/270 reporting package) prior to submission to the federal government.

Questioned Costs	Questioned costs are $2,117, the amount of overstatement in the federal share requested for reimbursement reported on the SF-1034 and SF-270 December 2010 reports for K-15-1001. The total federal share requested for reimbursement for the 32 reports tested for the months of December 2010 and June 2011 was $3,346,915.
Agency Contact Name	Art Caldwell, DNG – State Comptroller
Agency Contact Phone Number	(302) 326-7160
Corrective Action Plan	A credit for $2,117 was issued on DNG federal reimbursable invoice K-27-1001 dated 10 FEB 2012. The DNG has enhanced its procedures to provide additional oversight regarding the preparation review of its monthly financial reimbursable invoices/reports to ensure that all amounts included in them properly reconcile to supporting First State Financial (FSF) reports, and that each reimbursable expenditure is included in only one SF-1034/270 reporting package, prior to submission to the federal government.
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).	

<table>
<tr><td>Agency</td><td>Delaware National Guard</td></tr>
<tr><td>Fiscal Year</td><td>2011</td></tr>
<tr><td>Reference Number</td><td>11-DNG-02</td></tr>
<tr><td>Related Prior Year Findings</td><td>N/A</td></tr>
<tr><td>Program Name (CFDA No.)</td><td>National Guard Military Operations and Maintenance (O&M) Projects (12.401)</td></tr>
<tr><td>Type of Finding</td><td>Noncompliance, Significant Deficiency</td></tr>
<tr><td>Compliance Requirement(s)</td><td>Reporting</td></tr>
<tr><td>Criteria</td><td>Within 90 days of final completion of the project (execution date of the NGB Form 593-R PROJECT INSPECTION REPORT by the State and the USPFO), or upon termination of MCCA, whichever comes earlier, the State shall promptly deliver to NGB a full and final accounting liquidating all payments or reimbursements under the MCCA.</td></tr>
<tr><td>Condition</td><td>Based on our review of the 2010 annual report submitted by the Delaware National Guard for the National Guard O&M Projects program, we noted remaining available funds for funding authorized during fiscal years 2009 and 2010 did not agree to supporting documentation, as noted in the table below:
<table>
<tr><th>Appropriation (Fund Year)</th><th>Amount Reported on submitted Annual Report</th><th>Amount should have been reported</th><th>Variance-(Under)/Over reported</th></tr>
<tr><td>40166 (2010)</td><td>2,685,396.06</td><td>2658,744.76</td><td>26,651.30</td></tr>
<tr><td>40166 (2009)</td><td>166,732.82</td><td>166,672.90</td><td>59.92</td></tr>
<tr><td>40475 (AASF Construction)</td><td>11,660,039.65</td><td>11,669,795.65</td><td>(9,756.00)</td></tr>
</table></td></tr>
<tr><td>Cause</td><td>DNG did not provide proper oversight during the review process for its annual report to ensure that all amounts reported appropriately reconciled to supporting FSF reports.</td></tr>
<tr><td>Effect</td><td>Amounts reported in annual reports may not reconcile to supporting FSF reports.</td></tr>
</table>

Recommendation	We recommend that DNG reinforce policies and procedures regarding the review of annual reports to ensure that all amounts included in the annual reports properly reconcile to supporting FSF reports prior to submission to the federal government.
Questioned Costs	There are no questioned costs associated with this finding since the Delaware National Guard was not reimbursed based on the amounts submitted in the annual report.
Agency Contact Name	Art Caldwell, DNG – State Comptroller
Agency Contact Phone Number	(302) 326-7160
Corrective Action Plan	The DNG State Comptroller's Office has enhanced its policies and procedures regarding the review of annual reports to ensure that all amounts included in the annual reports properly reconcile to supporting FSF reports prior to submittal to the federal government. The $9,756 variance on this $11.6M (MCCA) contract, which was the subject of this audit finding, has been identified and corrected.
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).	

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Agriculture**
Fiscal Year	**2011**
Reference Number	**11-AGR-01**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Farm and Ranch Land Protection Program (10.913)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Allowable Costs, Cash Management, Matching, Reporting**
Criteria	Per Cooperative Agreement 73.21J2.7.13, III. Obligation of Funds, and Cooperative Agreement 73.21J2.9.13, IV. Obligation of Funds: *The United States' contribution for the acquisition of each conservation easement acquired by the Foundation (DDA) shall be up to but not more than 50% of the appraised fair market value of the conservation easement.*
Condition	We noted that DDA completed the federal/state calculation incorrectly for four out of 10 properties selected for test work. In addition, another four properties were determined to be calculated incorrectly from the federal cognizant agency's review of the calculations of federal share and subsequently had the DDA revise the related SF-425 and SF-270 reports accordingly. See detail of all 8 properties below:

Project ID	Federal Share as Originally Calculated	Corrected Federal Share per NRCS	Variance (Correcting Entry Needed)
N-07-12-073D	16,195.91	451,407.50	264,788.41
S-07-11-042M	999,999.99	975,000.00	24,999.99
N-06-11-129E	473,335.05	189,300.00	284,035.05
K-08-10-205H	63,962.13	63,292.13	670.00
N-08-10-130Q	51,895.35	13,065.00	38,830.35

	S-08-09-080G · 159,331.83 · 155,206.50 · 4,125.33 N-06-06-132B · 63,625.63 · 22,000.00 · 41,625.63 K-99-11-044G · 315,477.61 · 195,547.00 · 119,930.61 **2,843,823.50** · **2,064,818.13** · **779,005.37**
Cause	The calculation formulas for determining the federal/state allocation for these eight properties was incorrect in the DDA spreadsheet used to support SF-270 requested amounts for reimbursement. The error was not identified through the DDA review process; it was detected via the NRCS review of CPA-230 forms for properties submitted for reimbursement.
Effect	DDA requests for reimbursement were overstated by $779,005.37 for fiscal year 2011.
Recommendation	Management should develop a process for reviewing the calculation of the federal/state allocation of each conservation easement acquired to ensure that the request for Federal funding does not exceed the maximum Federal share defined in the Cooperative Agreements.
Questioned Costs	Questioned costs are $779,005.37, the total overstatement in the amounts requested for reimbursement. The total federal share requested for the 10 properties tested in our sample was $3,899,447, and the total federal share requested for the population of properties subject to our sampling was $8,636,837 for the fiscal year ended June 30, 2011.
Agency Contact Name	Austin Short, Deputy Secretary
Agency Contact Phone Number	(302) 698-4505
Corrective Action Plan	Preservation Management has created a form which includes all the calculations of federal/state funding to assure Federal funding does not exceed the maximum Federal share defined in the Cooperative Agreements. The form is prepared for each federally funded easement using the Self-contained (Federal) appraisal (which provides the Before/After Market Values) to calculate the Fair Market Value; the form also includes the Purchase Price to assure the cooperating entity's 25% share is properly calculated. The Lead Management of the Preservation Program verifies the information after staff have completed it to provide additional review. The approved form is then presented to accounting staff and the Foundation attorney to complete the settlement and reimbursement processes.

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	We created a form as specified in our correction action plan to verify the federal/state funding calculations. We now utilize this form for all federally funded properties to ensure we request the proper amount of federal funding for each property.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Agriculture**
Fiscal Year	**2011**
Reference Number	**11-AGR-02**
Related Prior Year Findings	**10-AGR-01**
Program Name (CFDA No.)	**Farm and Ranch Land Protection Program (10.913)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Cash Management**
Criteria	Per terms of Cooperative Agreement 73.21J2.7.13, dated June 25, 2007, V. Payments: At a minimum, the following information shall be included in, or attached to, the SF-270: (1) the name of the State of Delaware or the Foundation; (2) this cooperative agreement number; (3) conservation easement number; (4) landowner name; (5) landowner's tax identification number (TIN) or social security number; (6) total amount of dollars paid to the landowner for the conservation easement, specifying the CCC share and the non-CCC share of the conservation easement cost; (7) term the conservation easement; (8) acres acquired; (9) Tax Identification number for the State of Delaware or the Foundation; (10) Federal Information Processing Standards (FIPS) number for the State of Delaware or the Foundation; (11) Bank routing number and account number for desired deposit location; and (12) Copy of OGC approved conservation easement deed; (13) Current appraisal conducted in accordance with NRCS policies and procedures, UASFLA and USPAP standards; (14) NRCS CPA-230, Confirmation of Matching Funds; and

	(15) The amount paid for the ALTA US title insurance policy (09/28/91) for each easement and (16) Copy of the ALTA US title insurance policy (09/28/91) for each easement. Per terms of Cooperative Agreement 73.21J2.9.13, dated July 24, 2009, VII. Payments: At a minimum, the following information shall be included in, or attached to, the SF-270, prior to Natural Resources Conservation Service (NRCS) accepting the conservation easement and disbursing payment: (1) the name of the Foundation; (2) this cooperative agreement number; (3) conservation easement numbers (if applicable); (4) landowner name; (5) landowner's tax identification number (TIN) or social security number; (6) total amount of dollars paid to the landowner for the conservation easement, specifying the CCC share and the non-CCC share of the conservation easement cost; (7) term the conservation easement; (8) acres acquired for each conservation easement; (9) Tax Identification number (TIN) for the Foundation; (10) Federal Information Processing Standards (FIPS) number for the State of Delaware or the Foundation; (11) Bank routing number and account number for desired deposit location; and (12) Copy of recorded Conservation Easement Deed(s) for each easement; (13) NRCS CPA-230, Confirmation of Matching Funds; and (14) Copy of the ALTA US title insurance policy (09/28/91) for each easement.
Condition	In performing our testing of the SF-270 reports filed in fiscal year 2011, we noted that the following information was not included in, or attached to, any of the SF-270 reporting packages that were submitted in fiscal year 2011 to the federal government: 1 Landowner's tax identification number (TIN) or social security number 2 Federal Information Processing Standards (FIPS) number for the State of Delaware Foundation. 3 Bank routing number and account number for desired deposit location.
Cause	Management oversight regarding the review of information reported in, or attached to, SF-270 forms.
Effect	The Delaware Department of Agriculture (DDA) did not comply with the terms of their cooperative agreements regarding information required to be submitted in, or attached to, SF-270 forms.

Recommendation	We recommend that DDA strengthen internal controls to ensure that all appropriate information is reported in, or attached to, SF-270 forms in accordance with Cooperative Agreement terms.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Austin Short, Deputy Secretary
Agency Contact Phone Number	(302) 698-4505
Corrective Action Plan	The Foundation's current policy is to complete a checklist of the items required per Cooperative Agreement with each request for Federal reimbursements and to create an information package including all of the relevant data to be submitted with each request. It was incorrectly assumed that the information package routinely prepared by the Foundation included the items identified above as missing from the documents and back-up materials submitted to NRCS. Future information packages - beginning with the one submitted with the reimbursement request for the January to March 2012 quarter – will be subjected to an additional round of inspection, to ensure that all information required by the Cooperative Agreement is included.
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 now conduct an additional round of inspection to verify that all items required per the Cooperative Agreement are included with each Federal reimbursement request as specified in our corrective action plan.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Agriculture**
Fiscal Year	**2011**
Reference Number	**11-AGR-03**
Related Prior Year Findings	**10-AGR-02**
Program Name (CFDA No.)	**Farm and Ranch Land Protection Program (10.913)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Reporting**
Criteria	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. As indicated above, the Supplement will continue to show the SF-269 as an expenditure report in the list of standard financial reports, in addition to the SF-425, until the transition is complete for all Federal agencies.
Condition	In performing our testwork of eight quarterly financial reports (two for each quarter in fiscal year 2011, one for each Cooperative Agreement), we noted that DDA incorrectly reported several key elements in the SF- 425 forms submitted during fiscal year 2011, including federal share of unliquidated obligations, total federal share, unobligated balance of federal funds, recipient share of expenditures, remaining recipient share to be provided, cash disbursements, cash on hand, and federal share of expenditures. As a result, the SF-425 reports did not properly reconcile to supporting FSF reports and grant agreements. The table below details the exceptions noted in our testing of SF-425 reports:

Quarter End Date of Report (Appropriation #)	Line Item	Amount Reported on submitted SF-425	Amount should have been reported	Variance-(Under)/Over reported
December 31, 2010 (1507)	b. Cash Disbursements	5,967,007.91	5,971,133.23	4,125.32

	c. Cash on Hand	(2,574,020.92)	2,578,146.24	(4,125.32)
	e. Federal share of expenditures	5,967,007.91	5,971,133.23	4,125.32
	g. Total Federal share	5,967,007.91	5,971,133.23	4,125.32
	h. Unobligated balance of Federal Funds	3,407,028.42	3,402,903.10	(4,125.32)
December 31, 2010 (1509)	b. Cash Disbursements	7,831,317.47	8,017,873.70	(186,556.23)
	c. Cash on Hand	(2,280,204.47)	(2,466,760.70)	186,556.23
	e. Federal share of expenditures	7,831,317.47	8,017,873.70	(186,556.23)
	g. Total Federal Share	7,831,317.47	8,017,873.70	(186,556.23)
	h. Unobligated balance of Federal Funds	2,626,393.53	2,439,837.30	186,556.23
	j. Recipient share of expenditures	2,905,665.91	2,719,109.68	186,556.23
	k. Remaining Recipient share to be provided	3,851,303.00	4,037,859.23	(186,556.23)
March 31, 2011 (1507)	b. Cash Disbursements	7,627,287.22	7,631,412.54	4,125.32
	c. Cash on Hand	(4,234,300.23)	(4,238,425.55)	(4,125.32)
	e. Federal share of expenditures	7,627,287.22	7,631,412.54	4,125.32

	g. Total Federal share	7,627,287.22	7,631,412.54	4,125.32
	h. Unobligated balance of Federal Funds	1,746,749.11	1,742,623.79	(4,125.32)
March 31, 2011 (1509)	b. Cash Disbursements	9,297,981.01	9,847,837.19	(549,856.18)
	c. Cash on Hand	(3,746,868.01)	(4,296,724.19)	549,856.18
	e. Federal share of expenditures	9,297,981.01	9,847,837.19	549,856.18
	g. Total Federal Share	9,297,981.01	9,847,837.19	549,856.18
	h. Unobligated balance of Federal Funds	1,159,729.99	609,873.81	549,856.18
	j. Recipient share of expenditures	4,194,433.70	3,407,967.52	786,466.18
	k. Remaining Recipient share to be provided	2,562,535.21	3,349,001.39	(786,466.18)
June 30, 2011 (1507)	b. Cash Disbursements	7,627,287.22	7,631,412.54	4,125.32
	c. Cash on Hand	(4,234,300.23)	(4,238,425.55)	(4,125.32)
	e. Federal share of expenditures	7,627,287.22	7,631,412.54	4,125.32
	g. Total Federal share	7,627,287.22	7,631,412.54	4,125.32
	h. Unobligated balance of	1,746,749.11	1,742,623.79	(4,125.32)

	Federal Funds			
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
June 30, 2011 (1509)	b. Cash Disbursements	9,163,058.21	9,712,914.39	(549,856.18)
	c. Cash on Hand	(3,611,945.21)	(4,161,801.39)	549,856.18
	e. Federal share of expenditures	9,163,058.21	9,712,914.39	549,856.18
	g. Total Federal Share	9,163,058.21	9,712,914.39	549,856.18
	h. Unobligated balance of Federal Funds	1,294,652.79	744,796.61	549,856.18
	j. Recipient share of expenditures	4,148,216.21	3,361,750.03	786,466.18
	k. Remaining Recipient share to be provided	2,608,752.70	3,395,218.88	(786,466.18)

Cause	Management oversight regarding the review of expenditures reported in SF-425 forms.
Effect	DDA did not accurately report several amounts (as detailed above) in the SF-425 forms for each quarter to the US Department of Agriculture for the periods ended December 31, 2010, March 31, 2011, and June 30, 2011.
Recommendation	We recommend that DDA strengthen internal controls to ensure that the identification of errors in reporting information occurs prior to submission of the SF-425 Form to the US Department of Agriculture. In addition, we recommend that DDA submit revised SF-425 forms for the quarters ended December 31, 2010, March 31, 2011, and June 30, 2011 to correct the errors noted in each respective report.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Austin Short, Deputy Secretary

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency Contact Phone Number	(302) 698-4505
Corrective Action Plan	The Foundation submitted corrected SF-425 reports to address the exceptions noted for the quarters ending on December 31, 2010, March 31, 2011, and June 30, 2011; however, these reports were not submitted until FY12. The corrected reports include adjustments for the variances noted above. The Department will enhance its review process of financial reports going forward to ensure that information reported in SF-425 reports properly reconciles to supporting documentation (FSF reports, etc).
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	Department staff have enhanced the review process of financial reports to ensure that SF-425 reports are properly reconciled. Additionally, as noted above in the corrective action plan, this particular issue was already resolved prior to the audit; however, the resolution occurred in the subsequent fiscal year (FY12).
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Agriculture**
Fiscal Year	**2011**
Reference Number	**11-AGR-04**
Related Prior Year Findings	**10-AGR-03**
Program Name (CFDA No.)	**Farm and Ranch Land Protection Program (10.913)**
Type of Finding	**Scope Limitation, Material Weakness**
Compliance Requirement(s)	**Special Tests and Provisions (Property Monitoring Site Visits)**
Criteria	Per terms of the Cooperative Agreements for the program, the Department of Agriculture is required to submit annual monitoring reports on the status of each easement to NRCS.
Condition	In testing a sample of 10 properties, we noted that required annual monitoring site visits were performed, documented, and submitted to NRCS in accordance with the terms of the Cooperative Agreement. However, we noted that the Department of Agriculture does not have an effective control in place to ensure that the listing of properties used as a population for property monitoring site visits is a complete, cumulative listing of all properties subject to the monitoring requirement.
Cause	Management oversight and a lack of controls in place to identify a completed, cumulative listing of properties that are due for annual property monitoring site visits.
Effect	The listing of properties used as a population for property monitoring site visits may not be complete. If any properties subject to these monitoring requirements are omitted from this listing, the required annual monitoring visits will not be completed in accordance with the requirements of the Cooperative Agreements.
Recommendation	We recommend that the Department develop an internal control process to review the listing of properties subject to monitoring visits to ensure the completeness and accuracy of the listing, and to ensure that all properties have the required annual monitoring visits.
Questioned Costs	There are no questioned costs associated with this finding.

Agency Contact Name	Austin Short, Deputy Secretary
Agency Contact Phone Number	(302) 698-4505
Corrective Action Plan	Preservation Management has a comprehensive listing of all easements that utilized federal funding. Preservation Management has included an additional step to assure that Foundation staff immediately visit those properties where easements are acquired after a year's monitoring visits (in addition to adding the property to the comprehensive list of federally funded easements). This action may result in some federally acquired easements having two monitoring visits within the initial year after easement acquisition but we believe it is warranted to assure that no property exceeds the 12-month monitoring cycle.
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 specified in the corrective action plan, the Foundation now conducts site visits (monitoring visits) for easements that are acquired after a year's monitoring visits to ensure that these properties are visited within the 12-month monitoring cycle. This action was initiated with the current round (Round 16) easement selections and the easements acquired after March 15 (the end of the 2012 monitoring cycle) will be visited by September 30.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Transportation**
Fiscal Year	**2011**
Reference Number	**11-DOT-01**
Related Prior Year Findings	**10-DOT-03**
Program Name (CFDA No.)	**Federal Transit Cluster (20.500, 20.507, S-20.507)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Special Tests and Provisions (Separate Accountability for ARRA Funding), Reporting (Section 1512)**
Criteria	**Special Tests – Separate Accountability for ARRA Funding** When a recipient receives ARRA funding, the Federal Agency must require recipients to agree to maintain records that identify adequately the source and application of ARRA awards. As such, recipients such as DelDOT/DTC who received ARRA funding for the Federal Transit Cluster Program for the FY11, should have a control in place to ensure they are identifying adequately the source and application of ARRA awards. Depending on the type of organization undergoing audit, the administrative requirements that apply to most programs arise from two sources: • A-102 Common Rule • OMB Circular A-110 There are also some other administrative compliance requirements contained in regulations that are not of the type covered in the A-102 Common Rule or OMB Circular A-110, that are unique to specific programs. Federal programs excluded from the A-102 Common Rule are listed in Appendix I of the Supplement. The financial management system must permit the preparation of required reports and tracing of funds adequate to establish that funds were used for authorized purposes and allowable costs. Reporting requirements are contained in the criteria discussed above, and may also be contained in applicable legislation, Federal awarding agency and program regulations, and award terms and conditions. As provided in 2 CFR Section 176.210, Federal agencies must 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, 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. Additional information, including presentation requirements for the SEFA and SF-SAC, is provided in Appendix VII. **Reporting (Section 1512)** Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter. The Section 1512 Reports must contain specific data elements which must agree to records and data reports and be presented in accordance with ARRA Section 1512 reporting requirements. Per the Implementation Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009, attachment to M-09-21 memorandum, the following was noted: Section 2.1 Section 1512 of the Recovery Act requires reports on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009) and for the Federal agency providing those funds to make the reports publicly available no later than the 30th day after the end of that quarter. Aimed at providing transparency into the use of these funds, the recipient reports are required to include the following detailed information: • Total amount of funds received; and of that, the amount spent on projects and activities; • A list of those projects and activities funded by name to include: • Description • Completion status • Estimates on jobs created or retained; • Details on sub-awards 4 and other payments. Section 4.2 defines a Prime Recipient's responsibilities as: • Owns recipient data and sub-recipient data • Initiates appropriate data collection and reporting procedures to ensure that Section 1512 reporting requirements are met in a timely and effective manner • Implements internal control measures as appropriate to ensure accurate and complete information • Performs data quality reviews for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and working with the designated subrecipient to address any data quality issues" Section 4.4 additionally notes Recipients and sub-recipients reporting Section 1512 data into the www.FederalReporting.gov solution must initiate a review of the data both prior to, and

	following, the formal submission of data. The post-submission review period runs from the 11th day of the reporting month to the 21st day of the reporting month for prime recipients. During this post-submission review period, significant reporting errors or material omissions that are discovered can be corrected using the www.FederalReporting.gov solution. Specific instructions for submitting new or corrected data will be provided on the www.FederalReporting.gov website. The prime recipients are responsible for reviewing data submitted by sub-recipients. Where a recipient identifies a data quality issue with respect to information submitted by the sub-recipient, the recipient is required to alert the relevant sub-recipient of the nature of the problem identified by the recipient. All corrections by recipients and sub-recipients during this phase of the review must be transmitted by the 21st day of the reporting month.
Condition	We noted that there is no control in place that ensures the system is configured in such a way to denote what is an ARRA expenditure under the Federal Transit Cluster. The Assistant Director of Finance, notes that while the system (FACTS) will show some expenditures as being ARRA, there is no consistency as to when an ARRA project is denoted as ARRA or not. Furthermore, DelDOT personnel were unable to provide supporting documentation for amounts listed on the FTC Section 1512 Report. As such, the Federal Transit Cluster Section 1512 Report we were required to test for the Quarter ending March 31, 2011 did not correctly agree to the system data expenditure listing as of 3/31/11. The line item “Total Federal Amount of ARRA Funds Received/Invoiced” disclosed $8,005K. However, the supporting documentation received supported $8,825K, an understatement of $820K on the report.
Cause	DelDOT/DTC did not have any controls in place to ensure the system (FACTS) denotes what an ARRA expenditure is VS. Non-ARRA Expenditure. As such, there is no consistency when looking up ARRA related projects and expenditures as to if the system will indicate if it is ARRA related or not. DelDOT personnel were unable to provide supporting documentation for amounts displayed on the Section 1512 Reports. This is a result of the lack of a clear reconciliation of the ARRA Reports to the FACTS ledger.
Effect	The Federal Transit Cluster could be incorrectly recording total ARRA expenditures on their SEFA and other related required reports such as the Section 1512 Reports.
Recommendation	We recommend that DelDOT be more consist and put controls in place for separate accountability of ARRA funding such as populating a grant number in FACTS at the project level that would be used only for ARRA expenditures. We recognize that DelDOT has made system changes that would allow ARRA funds to be indicated as such in the system. However, during fiscal year 2011, these coding changes were not being used for all ARRA funds. We recommend that beginning fiscal year 2012, all ARRA funds are designated as such in the FACTS system. Furthermore, we recommend that that DelDOT create controls to ensure that Section 1512

	Reports are including all expenditures to date and agree to system detail.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Earle Timpson
Agency Contact Phone Number	(302) 760-2678
Corrective Action Plan	DelDOT's FACTS system was designed to track various apportionments by the appropriation code. Unlike FHWA, when FTA allocated ARRA funding they retained the existing appropriation code for the program in question. As a result, the FTA funding was coded with the same code whether the funds were Delaware's Formula apportionment or ARRA. When this condition was identified, DelDOT took steps to address this in the FACTS system. We have since added a field that tracks the FTA grant number. When the data in this field is combined with the apportionment code, the reviewer can now differentiate between ARRA and the standard Formula funding. We feel this enhancement put a control in place that will enable DelDOT to ensure that the data generated for future 1512 reports will be accurate and should eliminate the condition that was identified.
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	* Note: Fully Corrected: The correction was implemented prior to this report being distributed.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Office of Management and Budget**
Fiscal Year	**2011**
Reference Number	**11-OMB-01**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)** **Child and Adult Care Food Program (10.558)** **Supplemental Nutrition Program for Women, Infants and Children (10.557)** **Federal Transit Cluster (20.500, 20.507, S-20.507)** **Highway Planning & Construction Cluster (20.205, S-20.205, 20.219)** **Capitalization Grants for Clean Water State Revolving Funds (66.458, S-66.458)** **Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)** **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 Children's Health Insurance Program (93.767)** **Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Reporting (Federal Funding Accountability and Transparency Act)**
Criteria	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 (1) under grants and cooperative agreements were implemented as interim final guidance by OMB in 2 CFR part 170, effective October 1, 2010 (75 FR 55663 et seq., September 14, 2010) and (2) under contracts, by the regulatory agencies responsible for the Federal Acquisition Regulation (FAR) in an interim rule, effective July 8, 2010 (75 FR 39414 et seq., July 8, 2010). The interim final guidance and the interim rule have the same effect as final guidance or a final rule and will remain in effect until superseded by final issuances. If the final issuances include any changes to the interim requirements, they will have new effective dates. 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. There are limited exceptions as specified in 2 CFR part 170 and the FAR. The guidance at 2 CFR part 170 does currently applies only to Federal financial assistance awards in the form of grants and cooperative agreements, e.g., it does not apply to loans made by a Federal agency to a recipient; however, subaward reporting requirement apply to all types of first-tier subawards under a grant or cooperative agreement. As provided in the 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. For grants and cooperative agreements, the effective date is October 1, 2010 for all discretionary and mandatory awards equal to or exceeding $25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date. The FAIN is the unique award number assigned to a particular grant or cooperative agreement by the Federal awarding agency (as opposed to the CFDA number, which pertains to a program generally). In some programs, a new award number is used each year and that new award number is considered a new FAIN. In some programs, where awards are made for a multi-year project, but may be funded in increments, even though a suffix may be added, e.g., -02 or -03 designating the subsequent years of an approved project, this is not considered a new FAIN. Therefore, if the FAIN for an award made in November 2009 was AB-12345 and for an award under the same program made in November 2010 was AB-56789, the latter would be considered a new FAIN. However, if the FAIN for an award made in November 2009 was AB-12345-02 and for an award under the same program made in November 2010 was AB-12345-03, the latter would not be considered a new FAIN. Once the requirement applies, the recipient must report, for any subaward under that award with a value of $25,000 or more, each obligating action of $25,000 or more in Federal funds. Recipients are not required to report on subawards made on or after October 1, 2010 that use funds awarded prior to that date.
Condition	Per review of Part 4 of the March 2011 A-133 Compliance Supplement and applicable grant award documents, we identified 12 major federal programs that are subject to the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements as defined in 2 CFR part 170. Per discussions with management of the State, it was noted that the Delaware Office of Management and Budget (OMB) had taken the responsibility for providing the appropriate guidance to the various State agencies as to the applicability of FFATA and related reporting requirements. We obtained and reviewed training materials prepared by OMB and given to the various State agencies. In reviewing these materials and having discussions with OMB, it was noted that the State's initial interpretation of the FFATA guidance was that the requirements only applied to new federal, non-Recovery Act funded programs that received grant awards with an award date on or after October 1, 2010, and would not apply to any previously existing federal program unless the terms and conditions of the program's grant award specifically included these requirements. This interpretation did not incorporate the part of the FFATA guidance that specifies that the applicability of the requirements is directly related to the establishment of a new Federal Award Identification Number (FAIN) as of October 1, 2010.

	In order to determine that applicable subawards were not properly reported by a recipient pursuant to FFATA, we performed an evaluation of compliance with these requirements based on whether the recipients demonstrated a "good faith" effort to comply. As part of performing this evaluation, we inquired of OMB as to the State's use and monitoring of the FFATA Subaward Reporting System website (FSRS.gov) or usaspending.gov for any new FAIN numbers that were uploaded by the federal awarding agency for any of the major programs listed above. We noted FSRS.gov only allows access for one DUNS number per registered user and, therefore, OMB would not have been able to login and monitor any FAIN information for the other DUNS numbers related to the various State agencies. Therefore, the State was unable to provide a complete list of new FAIN numbers effective October 1, 2010, that would have required FFATA reports for the related subawards. Subsequently, it was found that such functionality may exist in usaspending.gov.
Cause	There was an initial misinterpretation of the federal definition of new grant award that would be subject to FFATA reporting requirements.
Effect	There could be FAIN numbers issued by the federal awarding agency to the State of Delaware that did not have the appropriate FFATA reports completed.
Recommendation	We recommend that the Delaware OMB provides additional guidance to the various State agencies regarding FFATA implementation, including the specific definition of which awards are subject to the reporting requirements. We also recommend that OMB develop policies and procedures to ensure that all DUNS and/or FAIN numbers applicable to the State are adequately monitored on the FSRS.gov or usaspending.gov websites and that all FAINs are appropriately identified and tracked for FFATA reporting requirements.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Bert Scoglietti, Director of Policy/External Affairs
Agency Contact Phone Number	(302) 739-4204
Corrective Action Plan	Delaware Office of Management and Budget (OMB) provided FFATA training to state agency personnel between March 17, 2011 and April 7, 2011 based on the interpretation of guidance issued by Federal Office of Management and Budget (OMB) in September 2010. It should be noted that the clarifying March 2011 A-133 Compliance Supplement was not issued by the Federal OMB until June 1, 2011. Delaware's FFATA implementation requires state agencies, as prime recipients of federal awards, to prepare and submit required FFATA subaward reports to fsrs.gov. Delaware OMB will lead this effort by developing and issuing additional FFATA guidance that fully details requirements for state agencies to file FFATA reports in accordance with the March 2011 A-133 Compliance Supplement and all

	subsequent guidance issued by Federal OMB. Delaware OMB will also provide additional training to state agency personnel beginning in FY 2012 to fully explain FFATA reporting requirements. This guidance and training will include information regarding the proper procedures for state agencies to determine when a report is to be filed. It is the responsibility of state agency personnel to ensure that FFATA reporting is completed. Delaware OMB will also identify techniques to extract data from usaspending.gov and fsrs.gov to ensure that state agencies are adhering to the State's policies and procedures regarding FFATA. As part of their monitoring responsibility, Delaware OMB will perform an audit of grants quarterly to ensure FFATA compliance. The sample size of the quarterly audit will be 25 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	Delaware OMB revised the FFATA training content and presented FFATA training during nine sessions to over 200 agency representatives between April 20, 2012 and May 17, 2012. The presentation materials were posted to the OMB web site and distributed to all state agencies as updated guidance on June 26, 2012. OMB completed the first quarterly audit of federal awards for FFATA compliance in June, 2012. A total of 25 awards were selected randomly and reviewed. Of the 25 awards selected: 17 No sub-award to report 5 Report already submitted to fsrs.gov. 2 Outstanding issues that are waiting for federal agency resolution 1 Report not submitted OMB provided follow up correspondence to those agencies that filed reports but not within the required timeframe reminding them of the FFATA requirements. OMB will continue to audit agency awards on a quarterly basis to ensure compliance with FFATA requirements. OMB continues to investigate potential techniques to extract information from usaspending.gov and fsrs.gov. Instructions for identifying FAIN #'s through usaspending.gov have been posted to the OMB FFATA web site.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Finance**
Fiscal Year	**2011**
Reference Number	**11-FIN-01**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Supplemental Nutrition Program for Women, Infants and Children (10.557)** **Unemployment Insurance (17.225, S-17.225)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Cash Management**
Criteria	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). We note that the Unemployment Insurance Program and WIC Program are subject to the CMIA and follow the composite clearance method (10 day clearance pattern for Unemployment Insurance and 8 day clearance pattern for WIC) of when the Program shall request funds after the funds have been paid out for a series of disbursements.
Condition	*Unemployment Insurance* For five out of eight federal cash draws tested, the requests for reimbursement were made prior to the 10 day composite clearance pattern allowed for Unemployment Insurance as required by the Cash Management Improvement Act Agreement (CMIA). The five draws totaled $1,509,761.90 out of the total cash draws sampled of $1,671,427.39. The total nonbenefit drawdown population for FY11 was $12,252,958. *Supplemental Nutrition Program For Women, Infants & Children (WIC)* For five out of sixteen federal cash draws tested, the requests for reimbursement were made prior to the 8 day composite clearance pattern allowed for WIC Vendor Payments as required by the Cash Management Improvement Act Agreement (CMIA). The five draws totaled $1,657,600 out of the total cash draws sampled of $3,165,499. The total drawdown

	population for FY11 was $16,210,185.
Cause	The CMIA float customization, which was implemented in conjunction with the State's new accounting system, First State Financials (FSF), was not appropriately configured to correctly tag expenditures subject to the 10 day lag required for the Unemployment Insurance Program and the 8 day lag required for WIC Program. The Unemployment Insurance and the WIC Programs had relied on the system functionality to ensure the draws were performed based on what is allowed per the CMIA Agreement.
Effect	The Unemployment Insurance Program and WIC Program are requesting funds in a manner which is not in compliance with terms of the CMIA.
Recommendation	We recommend that the programs wait the respective days from when the expenditures are approved and paid in FSF and when they are requested for reimbursement, or that the accounting system configuration is modified to appropriately identify expenditures subject to the CMIA required float.
Questioned Costs	Questioned costs for interest earnings on early drawdowns are not determinable.
Agency Contact Name	Kris Knight, Director of Division of Accounting
Agency Contact Phone Number	(302) 672-5501
Corrective Action Plan	CMIA systematic configuration was corrected in September 2011 prior to the start of the FY11 Single Audit.
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	Corrected in September 2011.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

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 noncustodial 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	Noncompliance 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**

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). **Anticipated Completion Date: October 31,2013**

Agency	**Department of Natural Resources and Environmental Control**
Fiscal Year	**2010**
Reference Number	**10-DNR-01**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**State Energy Program (81.041, S-81.041)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Cash Management**
Criteria	Per terms of the grant agreement: Requests for advances must be made through the ASAP system. You may submit requests as frequently as required to meet your needs to disburse funds for the Federal share of project costs. If feasible, you should time each request so that you receive payment on the same day that you disburse funds for direct project costs and the proportionate share of any allowable indirect costs. If same-day transfers are not feasible, advance payments must be as close as is administratively feasible to actual disbursements. If you earn program income during the project period as a result of this award, you may add the program income to the funds committed to the award and use it to further eligible project objectives. Per 10 CFR 600, § 600.221 Payment (this CFR is referenced as applicable guidance in the grant agreement): (a) *Scope*. This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors. (b) *Basic standard*. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205. (c) *Advances.* Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee. (i) *Interest earned on advances.* Unless there are statutory provisions to the contrary,

	grantees and subgrantees shall promptly, but at least quarterly, remit to the Federal agency interest earned on advances. The grantee or subgrantee may keep interest amounts up to $100 per year for administrative expenses.
Condition	We noted, that for one of the seven advances tested, requested on June 25, 2010 for $10,110,000, the advance request was not timed to minimize the time between transfer of funds from the federal government and expenditure of funds for the program. These amounts were passed through to the Sustainable Energy Utility, a blended component unit of the State, for use in paying rebates for programs. Per discussion with DNREC program personnel, the amount requested was in anticipation of the implementation of the State First State Financials (FSF) system, and in anticipation that there would be significant participation in the rebate programs for which the SEU uses program funds. However, the program overestimated the funds needed for program expenses; nearly the entire $10.1M remains in an interest bearing account as of the end of December. We noted that this advance payment to a blended component unit did not conform to the timing requirements that apply to the pass through entity (as noted above). We further note that this instance of noncompliance is driven by the lack of an internal control to ensure that advance amounts requested adhere to the terms of the grant agreement and 10 CFR 600, § 600.221 prior to the submission of the advance request within ASAP. We did note, however, that the Program is in compliance with the treatment of interest earned on the advance amount.
Cause	The State Energy Program did not have established internal control policies and procedures in place to ensure that amounts requested through the ASAP system were properly supported prior to the request for funding being submitted. In addition, the Program did not time advance requests, and review the use of the advanced funds, to ensure that the use of funds adhered to the terms of the grant agreement and 10 CFR 600, § 600.221.
Effect	Without a management review control in place, DNREC may request funds in a manner which is not in compliance with terms of the grant agreement.
Recommendation	We recommend that the State Energy Program develop internal control policies and procedures regarding ASAP funding requests, that require a management review and approval process over requested amounts prior to the submission of the funding request within ASAP. In addition, we recommend that management review the use of advance funds passed through to component units and subrecipients to ensure that the use of funds adheres to the terms of the grant agreement and 10 CFR 600, § 600.221.
Questioned Costs	Questioned costs for this finding are $10,100,000, the total amount of the advance not requested in accordance with terms of the grant agreement and 10 CFR 600, § 600.221.
Agency Contact Name	Rebecca Zink, DNREC Fiscal Administrative Officer

Agency Contact Phone Number	(302) 739-9903
Corrective Action Plan	The Department does have established internal control policies and procedures in place. The Department has both a Purchasing and Signature policy for establishing internal controls of documents. In order for funds to be drawn from ASAP each request corresponds to a voucher, which is paying from an encumbrance or established Purchase Order following the State and Department Procurement Policy adhered to 10 CFR 600.236. Grant draws are taken from ASAP weekly on documents that have processed the previous week. The Department did review the use of the advanced funds by the subrecipient, to ensure that the use of funds adhered to the terms of the grant agreement. Within the Special Terms and Conditions for the grant agreement it refers to the SEP Narrative Information Worksheet/State Plan. This plan included four activities that were approved July 1, 2009, the State Title of Buildings/Technical Assistance defines a budget of $12 million which operates as a revolving loan program and allows residents to benefit for years to come. Revolving Loan Funds (RLF) and loan loss reserves may be drawn down in advance to capitalize the RLF at the time the fund is obligated and are not subject to the requirement that they must be disbursed within three days which is referenced from 31 CFR 205.15 and 10 CFR 205.25. Interest earned from the time that revolving loan funds are advanced to the time loans are made are contractually committed to support specific loans or portfolios of loans must be treated as program income and rolled back into the fund or another approved, eligible activity. However, if a grantee chooses not to roll interest earned back into the revolving loan fund or use it for another approved eligible activity, they must return it to the Federal Government 31 CFR 205.15, 205.25, 10CFR 420.18(d). DNREC has currently reached out to our project manager with Department of Energy and to Division of Accounting Staff for further guidance and is awaiting response.
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 of Natural Resources and Environmental Control (DNREC) worked with Division of Accounting and Department of Energy (DOE) to have the 10M expenditure for the Revolving Loan Fund returned to DNREC. DOE allowed DNREC to create a unique project, which was unlinked to grant draws within the SEP ARRA Grant. DNREC moved forward with administering the Revolving Loan Fund.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Natural Resources and Environmental Control**
Fiscal Year	**2010**
Reference Number	**10-DNR-02**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**State Energy Program (81.041, S-81.041)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Subrecipient Monitoring**
Criteria	A pass-through entity is responsible for (1) ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133… and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after the 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 (OMB Circular A-133 Compliance Supplement, Part 3, Section M). A pass-through entity is responsible for evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations (OMB Circular A-133 Compliance Supplement, Part 3, Section M). Per 10 CFR 600 and the terms of the grant agreement require the pass through entity to ensure that subrecipients comply with all applicable procurement, suspension and debarment requirements (including ARRA Buy American provisions) and comply with the provisions of Davis-Bacon.
Condition	In our testing of the one subrecipient for the Program subject to subrecipient monitoring provisions in FY2010, Applied Energy Group (AEG), we noted that the Program does not have established monitoring procedures in place or controls in place to ensure compliance with general requirements as detailed in OMB Circular A-133 Compliance Supplement, Part 3, Section M) or program specific compliance requirements, as detailed in the grant agreement and 10 CFR 600. Specifically we noted the following:

	• There are no established subrecipient monitoring policies and procedures or internal controls (to ensure compliance with these requirements) in place for the Program. • DNREC does not have a monitoring process in place to ensure that subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements. • DNREC does not have during the award monitoring procedures in place over subrecipients to ensure that corrective action on deficiencies is completed. • DNREC does not perform monitoring of the procurement process utilized by subrecipients to ensure compliance with State and/or federal guidelines for procurement. The same is true to verification that parties contracted with are not on the EPLS listing. • DNREC has no monitoring process in place to ensure that: – the required A-133 audits are completed for subrecipients, – the A-133 reports are received and reviewed by DNREC for all subrecipients, – appropriate follow up on corrective action for findings is completed. In addition, we noted that the Sustainable Energy Utility (SEU), is a blended component unit of the State. As a result, the Program improperly classified the SEU as a subrecipient in error. An entity cannot be a subrecipient of itself.
Cause	DNREC improperly classified the AEG as a vendor for program administration purposes for most areas (the only place the entity was properly classified as a subrecipient was on ARRA 1512 reports).
Effect	Management's classification of AEG as a vendor resulted in a lack of subrecipient monitoring performed for the entity to ensure compliance with all applicable requirements noted above.
Recommendation	We recommend that the State Energy Program develop internal control policies and procedures regarding monitoring of subrecipients, to ensure that all required monitoring activities are being performed to ensure subrecipient compliance with applicable federal requirements.
Questioned Costs	Questioned costs as of June 30, 2010 are $649,349, the amount passed through to AEG.
Agency Contact Name	Rebecca Zink, DNREC Fiscal Administrative Officer
Agency Contact Phone Number	(302) 739-9903

Corrective Action Plan	DNREC has the SEU as the subrecipient of the SEP ARRA grant currently. A Memorandum of Understanding (MOU) has been executed between DNREC, the SEU, AEG and Belfint Lyons & Shuman (Fiscal Agent). Majority of the programs identified in the Department of Energy grant application are to be carried out or directed by the SEU. All flow down requirements are detailed within the MOU. As a result of this finding we are currently working with the Division of Accounting and The Department of Energy to see exactly how the SEU best fits within this grant.
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 of Natural Resources and Environmental Control has developed an internal control guideline for sub recipient monitoring to ensure all required monitoring activities are being performed and met according to federal compliance. In working with the Division of Accounting the recommended that the SEU have an A-133 Audit as well. The SEU is currently undergoing an audit performed by BDO. Also in closing out the SEP ARRA grant DNREC reconciled all the expenditures with in DFMS and First State Financials. We also reconciled the funds that flowed through the Sustainable Energy Utility, Applied Energy Group and Belfint Lyons and Shuman.
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Natural Resources and Environmental Control**
Fiscal Year	**2010**
Reference Number	**10-DNR-08**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**State Energy Program (81.041, S-81.041)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Reporting**
Criteria	The State Energy Office is required to report program expenditures in federal financial reports, Form SF-425, to the US Department of Energy on a quarterly basis.
Condition	In performing our testing of the June 30, 2010 quarterly SF-425 reports to the Department of Energy, we noted that the report for federal grant number DE-EE0000342 (State SAI number S9031803) included total cash disbursements (line b) and total federal share of expenditures (line e) of $10,908,752.96. We noted that $10,110,000 of these reported amounts relate to funds moved from DNREC to the SEU. Because both DNREC and the SEU are both a part of the entity of the State of Delaware, the $10.1M was not expended in the fiscal year. As a result, total cash disbursements (line b) and total federal share of expenditures (line e) are both overstated by $10,110,000.
Cause	Management oversight regarding the review of information reported in quarterly performance reports submitted to DOE, and the misclassification of the SEU as a subrecipient.
Effect	The amounts reported in the June 30, 2010 SF-425 report for federal grant number DE-EE0000342 (State SAI number S9031803) are overstated.
Recommendation	We recommend that the DNREC State Energy Office strengthen internal controls to ensure that all appropriate information is reported in quarterly SF-425 reports, and that all amounts reported appropriately reconcile to actual expenditures prior to submission to DOE.

Questioned Costs	Questioned costs are $10,110,000, the amount included in the total cash disbursements and total federal share of expenditure lines that was not expended during fiscal year 2010.
Agency Contact Name	Rebecca Zink, DNREC Fiscal Administrative Officer
Agency Contact Phone Number	(302) 739-9903
Corrective Action Plan	The Department has implemented procedures in regards of Section 1512 and Federal Reports. As stated above the Director of Clean Energy and Climate Policy who serves as the State Energy Coordinator will verify the data that is submitted to the Department of Energy. All reports submitted to USDOE have been reviewed and approved by the State Energy Program Project Officer, Jose Benitez. The Department along with Division of Accounting and Department of Energy are currently working on the finding in regards to SEU being a blended component and not a subrecipient. DNREC has reached out to The Department of Energy and is awaiting a response, we are planning to have a response and collaborate with Division of Accounting by April 30th, 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	DNREC has changed its approval process in regards to Section 1512 and Quarterly 425 reporting. We are using reports that show approved and posted documents in which the Fiscal Administrative Office approves. These reports and figures are then sent to the Department of Energy & Climate for them to approve. Once both sides approve of the documentation the reports are then keyed and approved. DNREC also worked with the Division of Accounting and Department of Energy and it was determined that the SEU is a blended component unit and was included in the 2011 State CAFR. This determination resulted in DNREC fiscal staff performing a full financial reconciliation of not only DNREC's expenditures but expenditures of the Sustainable Energy Utility (sub recipient), Applied Energy Group and Belfont Lyons and Schuman (fiscal agent).
Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Health and Social Services** **Department of Social Services**
Fiscal Year	**2010**
Reference Number	**10-DSS-02**
Related Prior Year Findings	**09-DHSS-02, 09-DHSS-03**
Program Name (CFDA No.)	**Temporary Assistance for Needy Families Cluster (93.558, S-93.714)**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Suspension & Debarment**
Criteria	Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a non procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. When a nonfederal entity enters into a covered transaction with an entity at a lower tier, the nonfederal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR Section 180.300).
Condition	The State has implemented a “boiler-plate” contract which states that they (the vendor) are neither suspended nor debarred from Federal procurement and nonprocurement transactions. Two contracts totaling $276,690, out of seven contracts tested with a total value of $1,401,924, did not include the suspension and debarment language in the contract or contract amendment signed by the vendor. The total population of contracts exceeding $25,000 for this program was $3,873,885. The Excluded Parties List System (EPLS) was reviewed during the audit process, and none of the vendors included in the testing was on the EPLS.
Cause	Contract amendments standard language has not been updated to include suspension and debarment language for modification to contracts prior to 2009 or to contract extensions.

Effect	The Program may award federally funded contracts to disallowed vendors at the time of the amendment.
Recommendation	We recommend that all new contracts and amendments include the new suspended and debarred language as required by the compliance supplement.
Questioned Costs	We noted that this is not a compliance issue as the vendors tested were not on the EPLS listing.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	This contract was put in place and subsequent amendments processed prior to the 2009 boilerplate update. As this contract is in its last contract extension period, when re-procurement occurs, the suspension and debarment language will be included in the resulting contract.
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 language was added to the SFY13 HCL contract as recommended: If the amount of this contract is over $100,000 the contractor by their signature in Section E, is representing that the firm and/or its principals, along with its subcontractors and assignees under this agreement, are not currently subject to suspension or debarment from procurement and nonprocurement activities by the Federal Government.
Anticipated Completion Date (if not Fully corrected).	

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	We implemented the following corrective actions: 1. As a condition of payment, we require the sub recipient to provide sufficient documentation with their invoices for us to verify amounts billed were for costs allowable in accordance with the State Plan, LIHEAP regulations, and contract provisions. In addition, we have strengthened the internal controls for paying sub recipient invoices by implementing enhanced OCS review, approval and processing procedures. 2. The DSSC Office of Community Services procured the services of a national consultant for technical assistance to assist with writing program monitoring procedures and develop an eligibility case file review form. We conducted a comprehensive case file monitoring of 630 case files or 2.95% of the total applications during the period June through August 2011. Additionally, the DSSC Internal Auditor performed a comprehensive fiscal monitoring of LIHEAP within DSSC OCS and the sub recipient. The monitoring report was issued 6/20/2012 detailing the results of the FFY 2011 sub-recipient fiscal and case file monitoring. We implemented corrective actions both internally and with the sub recipient, Catholic Charities, during the course

	of our monitoring. 3. We obtained and reviewed supporting documentation for all but $858 of the $13,452,771 in expenditures to Catholic Charities during State fiscal year 2010 questioned by the auditor. We found supporting documentation reviewed confirmed expenditures were for allowable costs. 4. We provided the Audit Resolution Team Leader at the Office of Grants Management, Administration for Children and Families, Department of Health and Human Services all of the foregoing information per his request to resolve the finding and questioned costs. Our last correspondence with him was May 9, 2012. Please note that all corrective actions have been implemented. The one outstanding item is to receive resolution from ACF on the questioned costs.
Anticipated Completion Date (if not Fully corrected).	When resolution of questioned costs are received from ACF.

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.
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 DSCYF Fiscal Services and Cost Recovery Offices are working with the Division of Family Services to modify the proposed CAP to meet the requirements of the three federal offices involved in the review of the proposal.

Anticipated Completion Date (if not Fully corrected).	We will resubmit the CAP prior to the end of August 2012.

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Services for Children, Youth, and Their Families**
Fiscal Year	**2009**
Reference Number	**09-CYF-02**
Related Prior Year Findings	**08-CYF-02, 07-CYF-02, 06-CYF-02**
Program Name (CFDA No.)	**Foster Care – Title IV-E (93.658)**
Type of Finding	**Significant Deficiency**
Compliance Requirement(s)	**Eligibility (Provider Approval)**
Criteria	The Title IV-E Foster Care child and provider eligibility requirements as outlined in 45 CFR 1356.71 and Section 472 of the Act; the purpose of which are to ensure that appropriate payments were made on behalf of eligible children and to eligible homes and institutions.
Condition	During the week of August 14, 2006, ACF staff from the Central and Regional Offices and State of Delaware staff conducted an eligibility review of Delaware's Title IV-E Foster Care program. A review of a sample of 80 cases was drawn for the review period October 1, 2005 to March 31, 2006. The review team determined 6 cases were ineligible for federal funding and concluded that Delaware's Title IV-E program was not in substantial compliance with federal child and provider eligibility requirements for the review period. During the week of April 2009, ACF staff conducted a follow up eligibility review for the Foster Care program. A review of a sample of one hundred and fifty cases from the period April 1, 2008 through September 30, 2008 was drawn and the program was found to be in substantial compliance with federal eligibility requirements. During fiscal year 2009, we tested 60 case files for provider eligibility requirements. Those files included supporting documentation showing compliance with federal child and provider requirements for the year ended June 30, 2009. However, we noted the internal controls surrounding periodic review of the case files were not being performed timely in accordance with State and agency policies.
Cause	The emphasis of DSCYF is on placing children in need of foster care as quickly as possible.

Effect	Foster care payments may be made to placements that have not met requirements to be an approved foster care provider.
Recommendation	We recommend that DSCYF continue to implement its corrective action plan, which includes enhancement of the controls surrounding foster care provider approval to ensure that approval requirements are met and are periodically reviewed in accordance with State and agency policies.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Christine L. Kraft, DSCYF Controller Leslie Boyd, DSCYF Cost Recovery Administrator
Agency Contact Phone Number	(302) 892-4548
Corrective Action Plan	In April 2009, ACF staff conducted a follow up eligibility review for the Foster Care program. The result of that review was the program was in substantial compliance with federal eligibility requirements. In December 2009, SB & Co. conducted an eligibility review for the Foster Care program, stating that "periodic review of the case files were not being performed timely in accordance with State and agency policies". Following the April 2009 review conducted by ACF, DSCYF contracted with a consultant to review the business processes for Title IV-E foster care eligibility. The recommendations from that review were received by DSCYF in October 2009. DSCYF has implemented those recommendations. These recommendations have improved the efficiency of the eligibility process. There are no eligibility determinations or redeterminations that are currently in a backlog status. In addition, the federal requirement for a child's eligibility must be reviewed at least annually. In December 2009, DSCYF updated the policy and procedures manual for Title IV-E eligibility to reflect the federal standard of an annual review. The modifications that have been made to the FACTS system have made the determination of eligibility for the Title IV-E Foster Care program more efficient and timely. With respect to the provider eligibility finding listed in 09-CYF-02, DSCYF contracted with MAXIMUS to provide modifications to the FACTS system as recommended during the business review. The modifications which incorporate a historical listing of provider license approval dates with the FACTS system logic that governs the child's outcome for Title IV-E eligibility was completed in August 2011 and is currently in use. The Administration for Children and Families Region III Office, Philadelphia PA will conduct a primary eligibility and maintenance payments review of DSCYF's Title IV-E Eligible Foster Care clients during the week of July 16, 2012.

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Summary Status of Prior Year Findings

June 30, 2012

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	System modifications completed in August 2011 are currently in use.
Anticipated Completion Date (if not Fully corrected).	

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.
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 DSCYF Fiscal Services and Cost Recovery Offices are working with the Division of Family Services to modify the proposed CAP to meet the requirements of the three federal offices involved in the review of the proposal.

Anticipated Completion Date (if not Fully corrected).	We will resubmit the CAP prior to the end of August 2012.

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Agency	**Department of Health and Social Services**
Fiscal Year	**2009**
Reference Number	**09-DHSS-05**
Related Prior Year Findings	**N/A**
Program Name (CFDA No.)	**Temporary Assistance for Needy Families (93.558)**
Type of Finding	**Noncompliance, Significant Deficiency**
Compliance Requirement(s)	**Reporting, Special Tests and Provisions (Penalty for Failure to Comply with Work Verification Plan)**
Criteria	Each state that claims maintenance of effort expenditures for a state program must collect and submit on a quarterly basis the ACF-199 Temporary Assistance for Needy Families Data Report. The ACF-199 TANF data report consists of four sections containing demographic information and case status. 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 submitted in the report. (45 CFR Sections 261.60, .61, .62, .63, .64, and .65)
Condition	For three of the 60 cases selected for testwork in 2009, we noted that the Division was not able to provide supporting documentation for the work participation status submitted to the Administration for Children and Families, Department of Health and Human Services in the ACF-199 Data Report.
Cause	Management did not maintain copies of the supporting documentation and was not able to provide data from the system for the cases in question.
Effect	The Division may not be accurately reporting data to determine its minimum annual work participation rate.
Recommendation	We recommend that the Division maintain copies of supporting documentation for all cases submitted on the ACF-199 report in accordance with federal regulation as stated in their TANF Work Verification Plan.

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2012

Questioned Costs	Question costs are not determinable.
Agency Contact Name	Barbara H. Hanson
Agency Contact Phone Number	(302) 255-9580
Corrective Action Plan	The Division of Social Services (DSS) will take the following corrective actions to address the concerns of this finding. DSS will plan and implement two corrective actions in order to assure that staff obtains the proper medical documentation of a client's inability to work, before the social worker exempts a client from participation with Employment and Training Vendors. The medical exemption will be validated by an outside vendor. First, using the new learning management system or remote/online learning process, DSS will develop mandatory refresher training for field workers on the work requirements for TANF clients. All staff will have to register for the class, participate in the training and pass the required test to demonstrate their understanding. All staff will be expected to accurately implement the Employment and Training policy for medical and other exemptions. Secondly, DSS currently has a contract with Jewish Employment Volunteer Services (JEVS) who is charged with conducting an independent medical evaluation on every TANF client who is coded in DCIS as medically unable to work or participate in work activities. JEVS began on 9/1/09 to review the active TANF clients who have been medically exempt for the longest period of time. In SFY11, all active medically exempt clients will be reviewed. Those clients who are not medically exempt will be required to look for work and cooperate with an Employment and Training vendor. Clients who do not cooperate, will have TANF benefits terminated.
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 next year (State FY-13) the disabled clients (those unable to work) were moved to a 100% State Funded (SSF) program. Neither Federal TANF funds nor State MOE funds are used to support this program therefore (1) these clients are not subject to the Work Verification Plan and (2) have no impact on the work participation rate as they are not in the federally funded TANF program.

Anticipated Completion Date (if not Fully corrected).	

Agency	**Department of Health and Social Services:** **Division of Public Health**
Fiscal Year	**2008**
Reference Number	**08-DPH-02**
Related Prior Year Findings	**06-DPH-14, 07-DPH-04**
Program Name (CFDA No.)	**Centers for Disease Control and Prevention,** **Investigations, and Technical Assistance (93.283)**
Type of Finding	**Material Noncompliance, Material Weakness**
Compliance Requirement(s)	**Equipment and Real Property Management**
Criteria	The recipient's property management standards for equipment acquired with Federal funds and federally owned equipment shall include all of the following: (1) Equipment records shall be maintained accurately and shall include the following information: a. A description of the equipment. b. Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number. c. Source of the equipment, including the award number. d. Whether title vests in the recipient or the Federal Government e. Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost. f. Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government). g. Location and condition of the equipment and the date the information was reported. h. Unit acquisition cost. i. ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the federal awarding agency for its share. (2) Equipment owned by the Federal government shall be identified to indicate federal

	ownership. (3) A physical inventory of equipment shall be taken and the results reconciled with the equipment record at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the cause of the differences. The recipient shall, in connection with the inventory, verify existence, current utilization, and continued need for the equipment. (OMB Circular A-110, Subpart C – 34 (f))
Condition	Public Health Preparedness Section (PHPS) has not maintained records of federally funded equipment or tracked it according to OMB Circular A-110, Subpart C. In addition, the physical inventory of equipment taken in fiscal year 2008 has not been reconciled to the general ledger.
Cause	Although there are policies and procedures in place, those policies and procedures do not adequately address the federal requirements for equipment purchases.
Effect	Equipment purchased with federal funds related to the PHPS could not be identified for testing and therefore could be used for unauthorized projects or improperly disposed of.
Recommendation	We recommend that the CDC Program maintain accounting records and track equipment in accordance with Circular A-110. We also recommend that CDC ensure periodic physical inventories are taken and reconciled at least once every two years.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Joe Hughes; Changed to Iwana Smith-Moore as of October 25, 2010
Agency Contact Phone Number	(302) 223-1720
Corrective Action Plan	The equipment list SFY04 & SFY05 and SFY08 have been completed and reconciled to financial purchases. The Equipment list for SFY06 and SFY07 are not up to date, but the reconciliation is in progress. The full reconciliation will be conducted with the implementation of the Public Health Emergency Preparedness (PEPR) Inventory Management System.
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 Office of Preparedness Warehouse staff completes an annual physical inventory, with the last one being completed in 2012. All inventory records have been entered into the Preparedness Inventory Tracking System (IRMS) which is maintained, reconciled and updated by preparedness warehouse staff when new items are received or in-stock items are distributed. Preparedness has been able to incorporate some of the missing data elements required by OMB Circular A-110, Subpart C into the inventory system, a project is currently underway to ensure all data requirements are met.
Anticipated Completion Date (if not Fully corrected).	Anticipated date of completion is June 2013.

Agency	**Department of Health and Social Services:** **Division of Public Health**
Fiscal Year	**2008**
Reference Number	**08-DPH-03**
Related Prior Year Findings	**04-DPH-06, 05-DPH-06, 06-DPH-08, 07-DPH-09**
Program Name (CFDA No.)	**Centers for Disease Control and Prevention,** **Investigations, and Technical Assistance (93.283)**
Condition	We noted that, in order to ensure provider claims are accurately paid, significant manual manipulation of the Screening for Life (SFL) database is required, including: • Reviewing the data for duplicate claims and suppressing payment on duplicates as appropriate. • Reviewing and changing as appropriate State appropriation codes and fiscal years. • Reviewing suspended items for propriety and changing status as appropriate. • Reviewing claims denied for propriety and changing status as appropriate. We also noted that: • There is no up-to-date system documentation including support of changes that have been made to the system since inception, which may result in difficulties in updating the SFL system for programmatic changes. • The system is based on Access 97, which is an application that is no longer supported by Microsoft. This may result in difficulties in updating the SFL system for programmatic changes. • Test and production databases are on the same server, which may result in data being erroneously changed. • The system does not include all MDE’s mandated by the grantor, which may result in difficulty providing adequate screening data to the grantor agency. Physical and logical security surrounding the SFL system contain weaknesses, such as the ability of users to potentially by-pass the data entry screens and manipulate underlying data, that may result in data being changed without the knowledge of program personnel. Total breast/cervical screening claims paid with federal funds for the year ended June 30, 2008 were $508,814. This amount impacts other financially related compliance

	requirements, including matching, maintenance of effort, period of availability, and financial reporting. Total expenditures for CFDA number 93.283 were $10,878,883.
Recommendation	We recommend that the SFL Program continue to implement its corrective action plan, which includes a proposal to enhance the Screening for Life database to a server modular based application.
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Agency Contact Phone Number	(302) 744-1040
Corrective Action Plan	Additional funds have been identified for data and billing processes. During calendar year 2009, Screening For Life will undertake a second RFP process for outsourcing of eligibility, enrollment, claims processing and claims payment business processes. If this process is successful, long-term upgrades to the SFL data/billing system will not be necessary. If this process is unsuccessful, work will resume on long-running upgrade of existing system with anticipated completion date of January 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	Complete
Anticipated Completion Date (if not Fully corrected).	The SFL system has been upgraded. Test and production are no longer on the same server. The system is now in SQL and not Access 97. Changes are now noted through an audit trail. Security issues have been corrected. The system now contains MDE requirements. The billing portion of the system is still not entirely user friendly and will require an upgrade to the level of effort needed to enter and track expenditures. In order to make the system more user friendly. The program plans to begin working on this aspect of the program over the next year. However, audit findings from 2008 have been corrected.