2014
DELAWARE

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

STATE OF DELAWARE
OFFICE OF THE GOVERNOR
TATNALL BUILDING, SECOND FLOOR
WILLIAM PENN STREET, DOVER, DE 19901

JACK A. MARKELL
GOVERNOR

PHONE: 302-744-4101
FAX: 302-739-2775

To the People of Delaware
and the Honorable Members of the
148th General Assembly:

I am pleased to present the State of Delaware's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2014. This all-inclusive financial report includes the State's Basic Financial Statements, prepared in conformity with generally accepted accounting principles and audited by the independent firm of KPMG LLP. Prepared by the Department of Finance, the CAFR is designed to assess the financial and fiscal health of the State and to support the information needs of investors, policymakers, legislators and taxpayers.

Delaware's financial and fiscal health is described as "strong" and "stable" by rating agencies. Moody's Investor Service, Fitch Ratings and Standard & Poor's recently reaffirmed the State's triple-A credit rating, acknowledging a long history of prudent fiscal management and continued progress in strengthening the economy. The reasons are familiar - a diverse and growing economy, employment growth that has outpaced the nation's, strong financial and budget management, healthy reserves, a well-funded pension plan, and strong debt management policies.

I am encouraged by our results and I am committed to continue working to strengthen our economy to keep Delaware moving forward.

Sincerely,

Jack Markell

Jack A. Markell
Governor

State of Delaware

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2014

Jack A. Markell
Governor

Thomas J. Cook
Secretary, Department of Finance

Kristopher E. Knight, CPA
Director, Division of Accounting

Prepared by the Department of Finance, Division of Accounting

This document and related information is available at http://accounting.delaware.gov/

Acknowledgments

The State of Delaware's Comprehensive Annual Financial Report was prepared by the Department of Finance, Division of Accounting, Financial Accounting & Reporting Section:

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Assistant Director of Financial Reporting

Jane L. Cole, CPA
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State Accountant V

Brennon A. Fountain, CICA
State Accountant IV

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State Accountant IV

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State Accountant IV

Christine T. Cosgrove, CICA
State Accountant III

Jennifer Thornton
State Accountant III

Special appreciation to:

All fiscal and accounting personnel throughout the State whose efforts and cooperation to submit accurate, timely financial data for their agencies made this report possible.

State of Delaware
Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2014
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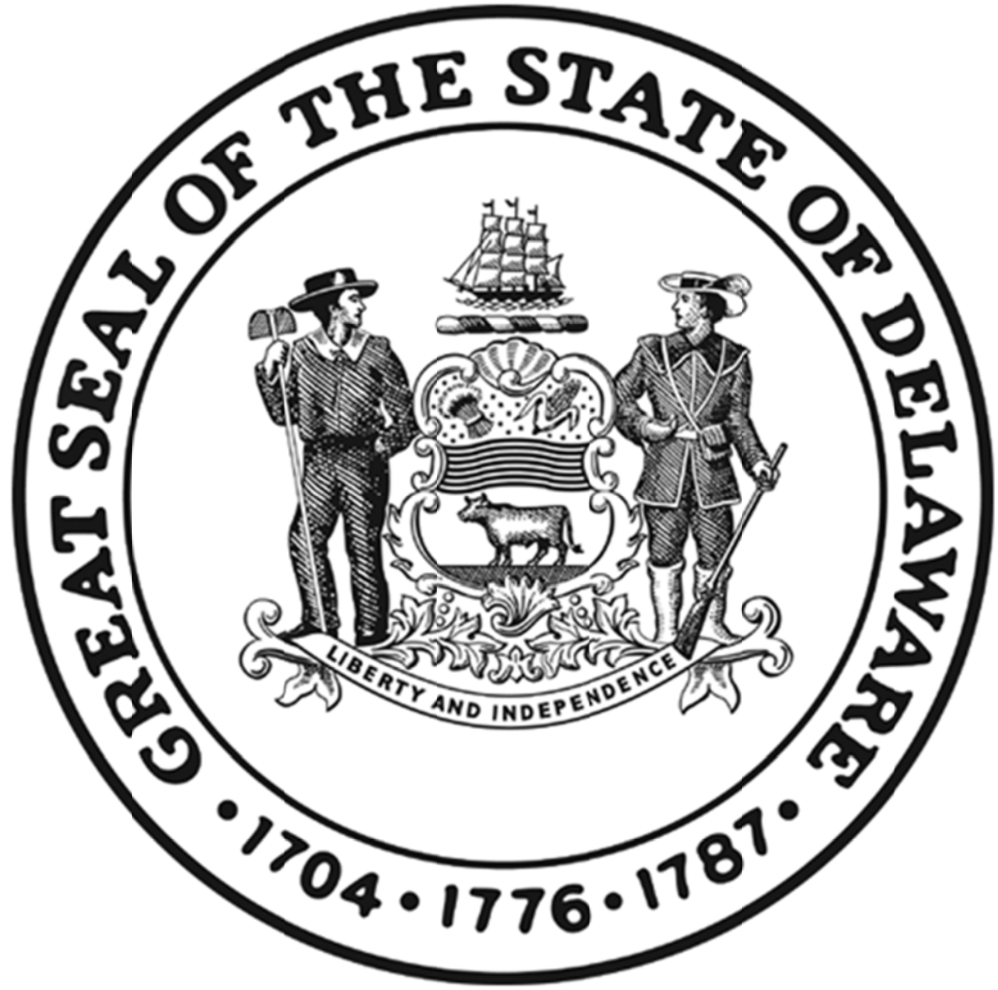

GREAT SEAL OF THE STATE OF DELAWARE

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Introductory section

Comprehensive Annual Financial Report

STATE OF DELAWARE
DEPARTMENT OF FINANCE
OFFICE OF THE SECRETARY

THOMAS J. COOK
SECRETARY OF FINANCE

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

It is my pleasure to present the Comprehensive Annual Financial Report (CAFR) for the State of Delaware (the State) for the fiscal year ended June 30, 2014. This report has been prepared in accordance with U.S. generally accepted accounting principles (GAAP) applicable to state and local governments, as prescribed by the Governmental Accounting Standards Board (GASB). The State continues to follow the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the form and content of government financial reports and participates in the GFOA's program for the Certificate of Achievement for Excellence in Financial Reporting.

Responsibility for both the accuracy of the data, as well as the completeness and fairness of the CAFR's presentation, rests with the Department of Finance. To the best of our knowledge and belief, the information presented is accurate in all material respects and fairly sets forth the State's financial position and results of operations in accordance with GAAP and based upon the internal control structure established by management. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities are included.

The report is presented in these sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, a list of selected State officials, the State's organizational chart, and the GFOA Certificate of Achievement. The financial section includes the independent auditors' report, management's discussion and analysis (MD&A), basic financial statements, notes to the basic financial statements, and required supplementary information. The statistical section includes selected financial, demographic, and economic information.

GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of an MD&A. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The State's MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE GOVERNMENT

The State is located on the eastern seaboard of the United States and is bordered by the Atlantic Ocean, the Delaware Bay and the states of New Jersey, Pennsylvania and Maryland. The

CARVEL STATE OFFICE BUILDING, 820 N. FRENCH ST., 8TH FLOOR, WILMINGTON, DELAWARE 19801
TELEPHONE: (302) 577-8979 • FAX: (302) 577-8982

State is 96 miles long and has a land area of 1,955 square miles. In 2014, it is estimated that over 926,000 people reside here. As the first state to ratify the United States Constitution on December 7, 1787, The State of Delaware is known as "The First State." The structure of the State's government, which is similar to other states, consists of three branches that operate through a system of checks and balances. The executive branch is comprised of the Governor, Lt. Governor, State Treasurer, State Auditor, Attorney General and Insurance Commissioner. The legislative branch is bicameral and consists of a 21-member Senate and a 41-member House of Representatives. The judicial branch includes the Supreme Court, Superior Court, Court of Chancery, and other courts.

The State's reporting entity reflected in the CAFR, which is described more fully in Note 1 to the basic financial statements, conforms to the requirements of GASB 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. Consequently, the transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the discretely presented component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

The State budgets and controls its financial activities on the cash basis of accounting during its fiscal year. In compliance with State law, the State records its financial transactions in either of two major categories - the budgetary general fund or budgetary special funds. References to these funds include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. GAAP fund definitions for accounting purposes differ from those of the budgetary basis general and special funds and are fully explained in Note 1 to the basic financial statements.

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. All disbursements from the budgetary general fund must be authorized by appropriations of the General Assembly.

Budgetary special funds are designated for specific purposes. The appropriate budgetary special fund is credited with tax or other revenue allocated and is charged with the related disbursements. Examples of specific uses of budgetary special funds include the Transportation Trust Fund, which collects some of its revenue through motor fuel taxes and tolls. Federal payments, unemployment compensation and local school funds are examples of nonappropriated special funds. Some special funds, such as the Delaware State Housing Authority and the State Pension Office, contain both appropriated funds for operations and non-appropriated funds for specific programs, such as public housing and pension benefits.

Federal funds, which are credited to budgetary special funds, are not appropriated, but are subject to the review and approval of the State Office of Management and Budget and the Delaware State Clearinghouse Committee for Federal Aid Coordination. The Committee is comprised of 10 members, including the Secretary of Finance, Director of the Office of Management and Budget, Director of the Delaware Economic Development Office, the Controller General, and six legislators.

Budgetary Control and Financial Management Systems

Disbursements are controlled by an encumbrance accounting system designed to provide information on the actual extent of the State's obligations and guard against over-committing available funds. Appropriations are reduced immediately when purchase orders are issued for goods and services. The total amount of budgetary general fund cash disbursements, plus unliquidated encumbrances, cannot exceed the amount appropriated by the General Assembly for any specific budgetary line items by department. Internal controls prevent State organizations from spending beyond budgetary limits (see Notes to Required Supplementary Information for more details).

Although the majority of the State's financial transactions are processed through the State's primary accounting system, certain special funds have financial activity external to that system, such as the Transportation Trust Fund, the Delaware State Housing Authority and Delaware State University. This activity is governed in strict adherence to legislative regulations and guidelines established by their boards. In addition, these entities are audited annually and produce published financial reports.

Budget Process

Each fall, State organizations submit requests for operating and capital funds for the next fiscal year to the Office of Management and Budget and public hearings are held to review the requests. The Governor's proposed operating and capital budgets for the general fund and special funds, including the Transportation Trust Fund, are then drafted and presented by the Governor to the General Assembly in January. The General Assembly's Joint Finance and Bond Bill Committees hold hearings and mark up the Governor's proposed operating and capital budgets. As amended, the budgets are expected to be enacted on July 1.

Appropriation Limit

The State Constitution limits annual appropriations by majority vote of both houses of the General Assembly to 98% of estimated budgetary general fund revenue plus the unencumbered budgetary general fund balance from the previous fiscal year. An exception to this limit may be made in the event of a declared emergency, with the approval of a three-fifths vote of the members of each house of the General Assembly. No appropriation may be made which exceeds 100% of estimated budgetary general fund revenue plus the unencumbered general fund balance from the previous fiscal year.

Tax Limitations

The State Constitution was amended in May 1980 to limit tax and license fee increases or the imposition of any new taxes or fees to a three-fifths vote of each house of the General

Assembly, rather than by a simple majority vote. An exception exists for tax increases to meet debt service on outstanding obligations of the State for which insufficient revenue is available when such debt service is due.

Revenue and Expenditure Forecasting

The Delaware Economic and Financial Advisory Council (DEFAC), an entity created by executive order in 1977, is required to submit revenue forecasts for the budgetary general fund and transportation trust fund to the Governor and the General Assembly. The committee is comprised of 33 members appointed by the Governor from the executive and legislative branches of State government and the private sector.

DEFAC prepares revenue estimates six times each fiscal year in September, December, March, April, May and June for the current fiscal year and the succeeding two fiscal years. A revenue forecast for the current fiscal year and the succeeding four fiscal years is generated once each year, generally in September. In addition, budgetary general fund and transportation trust fund expenditure forecasts are generated for the current fiscal year in September, December, March, April, May and June.

The revenue and expenditure forecasts are used in the State budget process to ensure State compliance with constitutional limits on spending and statutory debt limitations. In addition, DEFAC advises the Governor and General Assembly on economic conditions in the State and advises the Governor and the Secretary of Finance on tax policy. DEFAC meetings are open to the public and provide a general forum for members of the public and private sectors to exchange views on matters of economic and fiscal concern for the State.

ECONOMIC CONDITION AND OUTLOOK

Delaware's recent economic performance has largely mirrored national trends in terms of employment and income growth. The State's 6.7% unemployment rate for 2013 compares favorably with the national rate of 7.4% and the mid-Atlantic region's 7.5%. More recently, however, Delaware has experienced an unemployment rate aligning more closely to the national average with an uptick mostly attributable to growth in the labor force as improving job prospects embolden formerly discouraged workers. Positive job gains in the professional business services, financial services, and construction sectors bode well for the State's medium term employment outlook. In addition, Delaware's per capita personal income is expected to modestly surpass that of the nation in the next two years owing to the job outlook and strong levels of in-migration. The Federal Reserve Bank of Philadelphia's leading index for the State remains strong, projecting an expansion in the economy through the first quarter of 2015.

As a result of active economic development policies, Delaware's economy is now based in large part on service-providing enterprises, especially financial activities. Delaware has targeted statutory and tax policy changes to encourage financial sector development and the State's major employers, Bank of America, N.A., JPMorgan Chase & Co., Barclays Bank Delaware and now Capital One, continue to maintain a major presence in the State and demonstrate the State's importance as a financial center. In the short and medium terms, Delaware's financial sector is expected to benefit from a rebound in the credit card industry as a result of improving consumer fundamentals, a steady U.S. economic recovery, and rising demand for credit card borrowing.

Although less reliant on manufacturing, the State has made important strides to reinvigorate and modernize its manufacturing base. For example, the site of the former Chrysler plant was purchased by the University of Delaware to pursue science, technology & advanced research. The "STAR" campus now houses a health sciences complex dedicated to advanced healthcare research, education and delivery.

To enhance its position in an increasingly competitive gaming market and to increase employment across the State, Delaware diversified its gaming portfolio to include sports betting and Keno at multiple retail venues and, in November 2013, introduced i-gaming to in-state consumers via the internet. In February 2014, Governor Jack Markell of Delaware and Governor Brian Sandoval of Nevada signed a multi-state internet agreement that will allow poker players from both states to participate in a combined player pool creating a larger marketplace. Delaware continues to explore additional gaming offerings and multistate compacts for online gaming.

Through strategic investment, the State continues to pursue high technology industries, including life sciences research and development, pharmaceuticals, agricultural biotechnology, human biotechnology, information technology and, more recently, alternative energy and other green industries. The State has made a significant investment to establish the Delaware Biotechnology Institute, a partnership involving State government, the State's higher education institutions and the private sector. The Institute is designed to expand the State's scientific base and create opportunities for the development of new technologies in the emerging life sciences field.

Delaware's business-friendly legal system continues to attract new incorporations. Even though initial public offering ("IPO") activity has only started to recover in 2013, the State has continued to register a record number of business formations in the form of limited liability companies and limited partnerships. Between 2011 and 2013, the number of new business entities that were formed in Delaware rose 19,600 to 152,897, bringing the total number of business entities registered in the State to more than 1,052,000.

INDEPENDENT AUDIT

The accounting firm of KPMG LLP has audited the State's basic financial statements for the fiscal year ended June 30, 2014. Based upon that audit, the independent auditor has issued an unmodified opinion that the State of Delaware's basic financial statements are fairly presented in conformity with GAAP. Their report on the basic financial statements has been included in the financial section of this CAFR.

The State Auditor of Accounts performs periodic financial and compliance audits of the various State departments, agencies and institutions of higher education and has primary responsibility for conducting audits under the federal Single Audit Act of 1984 which was amended by Single Audit Act of 1996. Results of these audits may be found in separately issued audit reports and may be obtained by contacting the Office of Auditor of Accounts, Townsend Building, Suite 1, 401 Federal Street, Dover, Delaware 19901.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the State of Delaware for its CAFR for the fiscal year ended June 30, 2013. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish a timely, easily readable, and efficiently organized comprehensive annual financial report that conforms to program standards. The report must comply with both generally accepted accounting principles and all applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. The State has received a Certificate of Achievement for the last 19 consecutive years (fiscal years 1995 – 2013). We believe that this year's report continues to conform to the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The Department of Finance takes great pride in the preparation of this Comprehensive Annual Financial Report. I wish to express my sincere appreciation to the many individuals whose dedicated efforts have made this report possible. This report could not have been accomplished without the professionalism and dedication demonstrated by the Division of Accounting and the financial and management personnel of each State agency, component units, and all other organizations within the reporting entity. This report is also available on the Internet at: http://accounting.delaware.gov/cafrdefault.shtml.

Sincerely,

Thomas J. Cook
Secretary of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Delaware

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2013

Jeffrey R. Esser

Executive Director/CEO

State of Delaware
Selected State Officials
As of June 30, 2014

KEY ELECTED OFFICIALS:

Governor	Jack A. Markell
Lt. Governor	Matthew Denn
Attorney General	Joseph R. Biden III
State Treasurer	Chip Flowers, Jr.
Auditor of Accounts	R. Thomas Wagner, Jr.
Insurance Commissioner	Karen Weldin Stewart

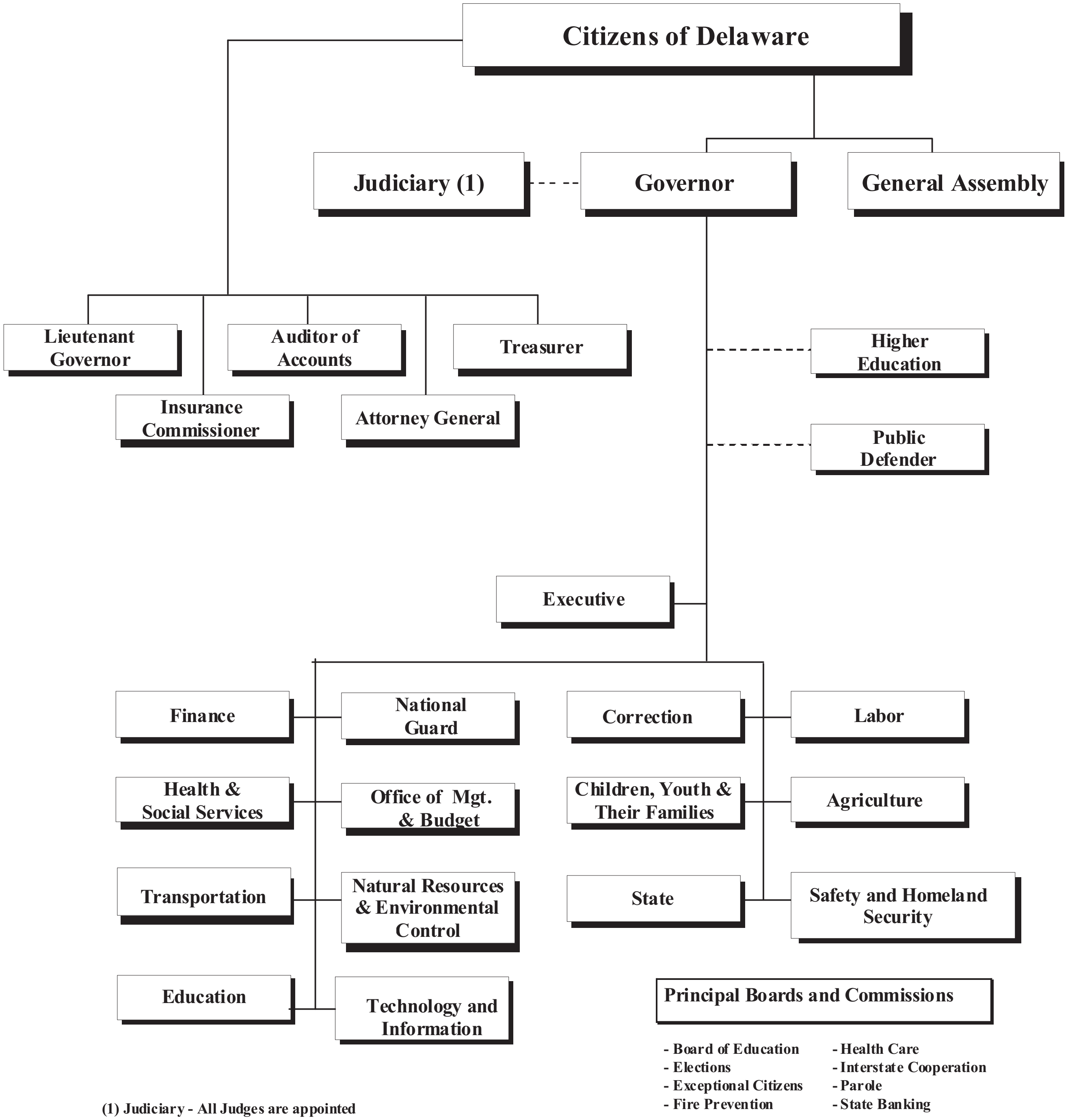
KEY LEGISLATIVE OFFICIALS:

President Pro Tem of the Senate	Patricia M. Blevins
Senate Majority Leader	David B. McBride
Senate Minority Leader	F. Gary Simpson
Speaker of the House of Representatives	Peter C. Schwartzkopf
House of Representatives Majority Leader	Valerie Longhurst
House of Representatives Minority Leader	Daniel B. Short

CABINET POSITIONS AND OTHER APPOINTED OFFICIALS:

Agriculture	W. Edwin Kee, Jr.
Correction	Robert Coupe
Delaware Economic and Development Office	Alan B. Levin
Delaware State Housing Authority	Anas Ben-Addi
Education	Mark Murphy
Finance	Thomas J. Cook
Health and Social Services	Rita M. Landgraf
Labor	John McMahon
Delaware National Guard	(Major General) Frank D. Vavala
Natural Resources and Environmental Control	David Small
Office of Management and Budget	Ann S. Visalli
Safety and Homeland Security	Lewis D. Schiliro
Services for Children, Youth and Their Families	Jennifer Ranji
State	Jeffrey W. Bullock
Technology and Information	James Collins
Transportation	Shailen Bhatt

State of Delaware
Organizational Chart



(1) Judiciary - All Judges are appointed by the Governor with the consent of the Senate.

FINANCIAL SECTION

Comprehensive Annual Financial Report

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (the State), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Delaware State Housing Authority (DSHA), Delaware State University (DSU), Delaware Charter Schools, Riverfront Development Corporation (RDC), and Diamond State Port Corporation (DSPC), which represent 88% of total assets, 80% of total net position and 98% of total revenues within the aggregate discretely presented component units. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us and our opinions, insofar as it relates to the amounts included for those entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware, as of June 30, 2014, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

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

As discussed in Note 1 to the financial statements, effective July 1, 2013, the State adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The Introductory Section, Supplementary Information—Combining Statements and Statistical Section as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information—Combining Statements 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Introductory and Statistical Sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

Philadelphia, Pennsylvania
December 19, 2014

STATE OF DELAWARE
Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's (the State's) financial activities as of and for the fiscal year ended June 30, 2014. 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 and deferred outflows of resources of the State exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $4,688.0 million (net position). Discretely presented component units reported a net position of $1,136.9 million, an increase of $37.7 million from the previous year as restated, resulting from the implementation of GASB 65 and conformance with other GASB pronouncements.

- As a result of its operations, the primary government's total net position decreased by $182.3 million (3.7%) in fiscal year 2014 when compared to the previous year's ending net position as restated with the implementation of GASB 65. Net position of governmental activities decreased by $364.9 million (21.6%) from the previous year, while net position of the business-type activities increased $182.7 million (5.7%) from the previous year.

- The State's governmental funds reported combined ending fund balances of $1,912.0 million, a decrease of $301.4 million (13.6%) in comparison with the prior year balance.

- The general fund reported unassigned fund balance of $788.7 million which was 17.2% of total general fund expenditures.

- The State's total general obligation debt increased $70.2 million (4.0%) during fiscal year 2014 to $1,825.4 million. Of the State's outstanding general obligation debt, $538.3 million (29.5%) has been issued on behalf of local school districts, which is supported by the property tax revenues of those districts. In addition, the State has $993.6 million in outstanding revenue bonds with $54.5 million for energy conservation projects and $939.1 million for transportation projects.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State is financially accountable (discretely presented component units). These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University, the Delaware Agricultural Lands Preservation Foundation and 21 charter schools (26 charter schools have been approved by the State but 5 were not operating during fiscal year 2014). 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 21 - 22 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 23 - 26 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 and special fund. A budgetary comparison schedule has been provided for the budgetary general fund and special fund to demonstrate compliance with the budget. The schedule can be found on page 120 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 27 – 29 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 30 – 31 of this report. The combining fiduciary and agency fund statements can be found on pages 130 - 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 34 - 116 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain Required Supplementary Information (RSI) concerning the status of the State's legally adopted budget, the maintenance of the State's infrastructure and additional schedules related to funding status and progress, annual pension costs and actuarial methods and assumptions for the State's pension and OPEB trusts. The RSI can be found on pages 118 - 128 of this report.

Statewide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $4,688.0 million at the close of the most recent fiscal year.

The largest portion of the State's net position of 108.3% reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related outstanding debt used to acquire those assets. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net position, comprising 19.0% of total net position, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion of the State's net position represents the unrestricted deficit net position (27.3%).

Condensed Financial Information - Primary Government
As of June 30, 2014

(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Non-capital Assets	$ 2,793,638	$ 3,091,193	$ 507,395	$ 492,035	$ 3,301,033	$ 3,583,228
Capital Assets	3,752,433	3,548,331	4,272,307	4,155,114	8,024,740	7,703,445
Total Assets	6,546,071	6,639,524	4,779,702	4,647,149	11,325,773	11,286,673
Deferred Outflows of Resources	-	-	22,823	-	22,823	-
Liabilities:						
Long-term Liabilities Outstanding	4,318,891	4,039,786	1,142,790	1,171,349	5,461,681	5,211,135
Other Liabilities	885,076	906,117	276,318	292,250	1,161,394	1,198,367
Total Liabilities	5,203,967	4,945,903	1,419,108	1,463,599	6,623,075	6,409,502
Deferred Inflows of Resources	17,995	-	19,574	-	37,569	-
Net Position:						
Net Investment in Capital Assets	1,808,658	1,701,366	3,267,409	3,142,841	5,076,067	4,844,207
Restricted	728,406	408,694	161,483	163,539	889,889	572,233
Unrestricted Deficit	(1,212,955)	(416,439)	(65,049)	(122,830)	(1,278,004)	(539,269)
Total Net Position	* $ 1,324,109	$ 1,693,621	$ 3,363,843	$ 3,183,550	$ 4,687,952	$ 4,877,171

* The State implemented GASB Statement No. 65 during fiscal 2014. The provisions of GASB Statement No. 65 required the State to record bond issuance costs as an expense of the current period. In prior years, bond issuance costs were recorded as deferred bond costs and ratably expensed over the life of the related bond. These deferred bond costs were expensed resulting in the restatement of the State's governmental activities net position as of July 1, 2013. Fiscal 2013 amounts for governmental and business-type activities reported above have not been restated to reflect this change.

The capital assets of the governmental activities increased by $204.1 million (5.8%) since June 30, 2013. The increase is the result of increases in construction in progress and other depreciable assets as a result of significant renovations to, and expansions of, existing school buildings across all counties to accommodate the rise in student population.

The decrease in governmental activities non-capital assets is due to a decrease in cash and investments due to a decrease in personal income tax revenues along with increases in expenses and debt service payments.

The increase in governmental activities long-term liabilities outstanding of $279.1 million (6.9%) is primarily due to an increase in the other post-employment benefits liability and general obligation bonds. At June 30, 2014, the long-term obligation for OPEB was $1,882.0 million, an increase of $200.0 million (11.9%) from fiscal year 2013. 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 $70.2 million (4.0%) from fiscal year 2013. The State's debt as a percentage of the State's personal income was 7.3% in fiscal year 2013 and 7.1% in fiscal year 2014. The State's debt burden reflects its centralized role in financing facilities, such as schools and prisons.

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

Changes in Net Position - Primary Government
For Year End June 30, 2014

(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program Revenues:						
Charges for Services	$ 537,503	$ 559,213	$ 1,201,749	$ 1,205,519	$ 1,739,252	$ 1,764,732
Operating Grants and Contributions	1,953,254	1,551,954	43,760	72,517	1,997,014	1,624,471
Capital Grants and Contributions	-	-	210,985	211,245	210,985	211,245
General Revenues:						
Taxes:						
Personal Income Taxes	1,040,341	1,130,501	-	-	1,040,341	1,130,501
Business Taxes	2,061,007	2,051,071	-	-	2,061,007	2,051,071
Real Estate Taxes	537,395	504,620	-	-	537,395	504,620
Other Taxes	232,017	217,880	-	-	232,017	217,880
Investment Income (Loss)	14,192	11,636	2,375	(608)	16,567	11,028
Gain on Sale of Assets	-	-	-	1,018	-	1,018
Miscellaneous	28,878	25,244	-	-	28,878	25,244
Total Revenues	6,404,587	6,052,119	1,458,869	1,489,691	7,863,456	7,541,810
Expenses:						
General Government	683,643	543,931	-	-	683,643	543,931
Health and Children's Services	2,850,068	2,428,629	-	-	2,850,068	2,428,629
Judicial and Public Safety	705,218	711,361	-	-	705,218	711,361
Natural Resources and Environmental Control	134,294	147,733	-	-	134,294	147,733
Labor	68,997	69,226	-	-	68,997	69,226
Education	2,482,569	2,408,647	-	-	2,482,569	2,408,647
Interest Expense	59,747	54,969	-	-	59,747	54,969
Lottery	-	-	344,389	358,467	344,389	358,467
Transportation/DelDOT	-	-	606,738	580,392	606,738	580,392
Unemployment	-	-	110,063	169,508	110,063	169,508
Total Expenses	6,984,536	6,364,496	1,061,190	1,108,367	8,045,726	7,472,863
Increase (Decrease) in Net Position Before Transfers	(579,949)	(312,377)	397,679	381,324	(182,270)	68,947
Transfers	215,006	238,244	(215,006)	(238,244)	-	-
Increase (Decrease) in Net Position	(364,943)	(74,133)	182,673	143,080	(182,270)	68,947
Net Position - Beginning of Year As Restated	* 1,689,052	1,767,754	3,181,170	3,040,470	4,870,222	4,808,224
Net Position - End of Year	$ 1,324,109	$ 1,693,621	$ 3,363,843	$ 3,183,550	$ 4,687,952	$ 4,877,171

*The State implemented GASB Statement No. 65 during fiscal 2014. The provisions of GASB Statement No. 65 required the State to expense all bond issuance costs. The bond issuance costs in prior years were previously recorded as deferred bond issuance costs. Therefore, the State's governmental activities net position as of July 1, 2013 has been restated. Fiscal 2013 amounts for governmental and business-type activities reported above have not been restated to reflect this change.

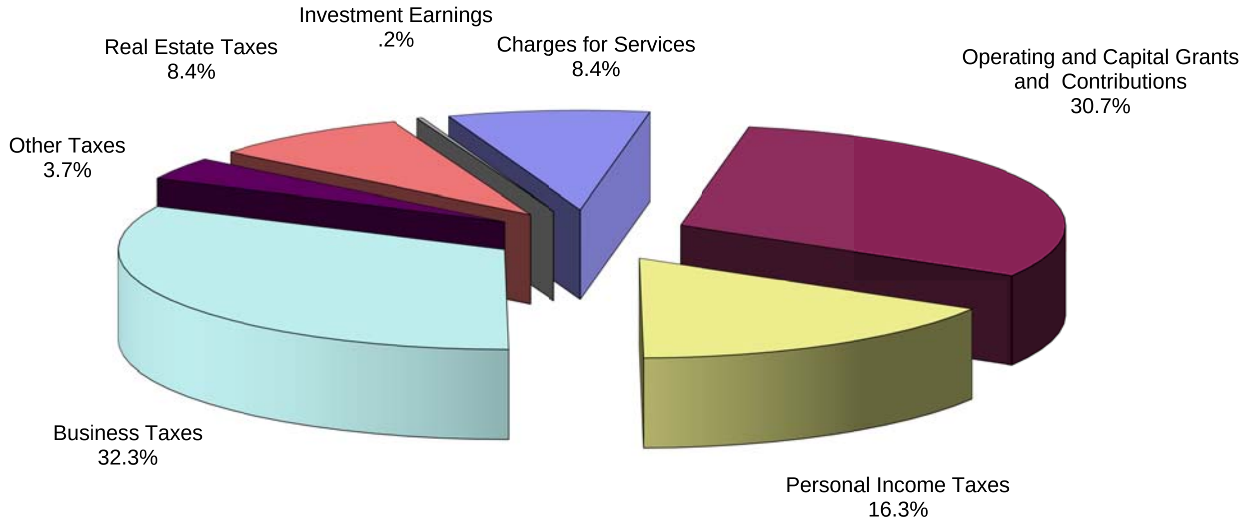
Governmental Activities

Since fiscal year 2013, the net position for governmental activities has decreased by $364.9 million. A comparison of the cost of services by function for the State's governmental activities is shown in the following chart, along with the revenues used to cover the net expenses of the governmental activities. Key elements of the decrease in the State's net position from governmental activities are as follows:

Total general revenues of governmental activities decreased overall by $27.1 million (0.7%) relating to decreases in personal income taxes of $90.2 million (8.0%) and increases in real estate taxes of $32.8 million (6.5%). The decrease in personal income tax revenues was primarily attributable to increased refunds with the increase in real estate tax revenues mainly the result of increased millage rates along with increased assessments from new construction due to the improved economy.

Program revenues increased by $379.6 million (18.0%) from the prior year due to an increase in operating grants of $401.3 million (25.9%). Health and Social Services received additional funding of $388.7 million (33.8%) due largely to increased Medicaid funds as a result of Medicaid expansion along with noncash commodities for food stamps and vaccinations. Natural Resources and Environmental Control received $15.9 million (42.9%) more in grant funding for various parks and recreation projects.

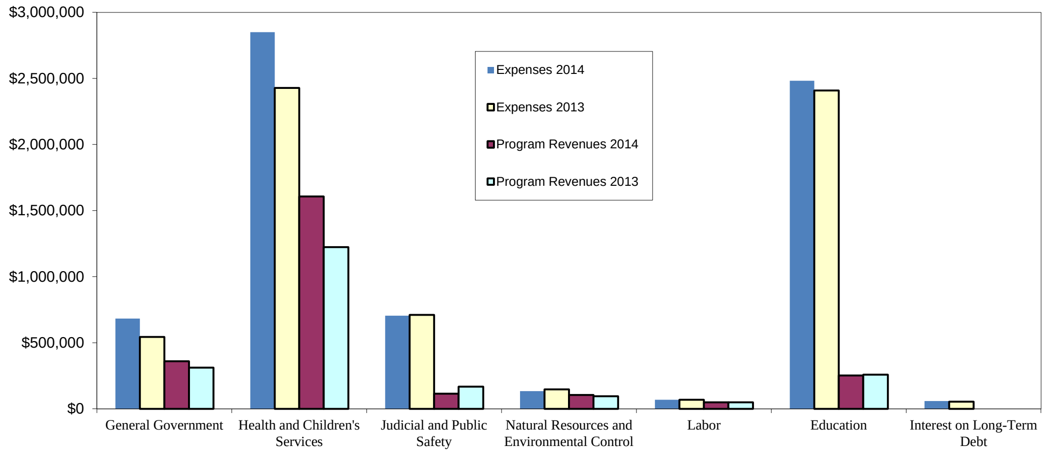
Revenues by Source – Governmental Activities



Expenses for governmental activities increased during fiscal year 2014 by $620.0 million (9.7%). The increase in governmental activities is due to the increased spending of $139.7 million (25.7%) for the general government, $421.4 million (17.4%) for Health and Children's Services and $73.9 million (3.1%) for Education. Health and Children's Services increased as a result of a general increase in the population served and rising health care costs. Education increased due to additional costs for salaries and benefits with the rising student population and general government expenses increased largely as a result of additional costs for tax enforcement measures as well as increases in the costs of benefits.

Expenses and Program Revenues- Governmental Activities

(Expressed in Thousands)



Business-type Activities

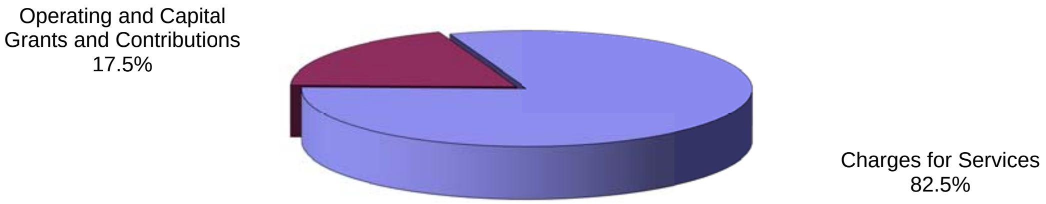
The net position for business-type activities increased by $182.7 million (127.7%) in fiscal year 2014. This increase is comprised of a $144.8 million (111.1%) increase in net position for DelDOT plus a $37.9 (197.5%) million increase in the Unemployment Insurance Trust Fund.

The increase of $37.9 million in fiscal year 2014 compared to an increase of $12.8 million in fiscal year 2013 for the Delaware Unemployment Insurance Trust Fund net position is due to a decreased demand for benefits paid by the Trust Fund. The operating revenues (charges for services and operating grants) and operating expenses decreased by $34.0 million (18.9%) and $59.4 million (35.1%), respectively due to decreases in the federally funded unemployment benefits and as a result of improvements in the economy with less individuals unemployed and collecting benefits.

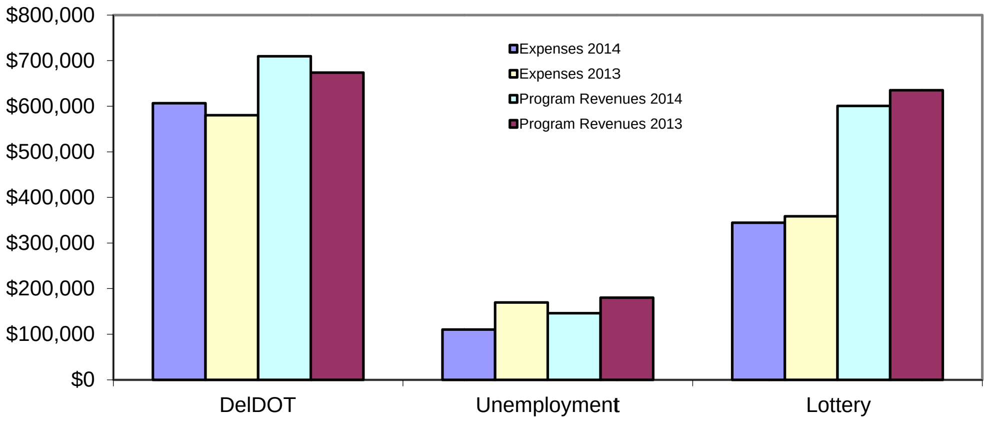
DelDOT's net position at June 30, 2014 was $144.8 million higher than at June 30, 2013. Change in net position increased from $130.3 million in fiscal year 2013 to $144.8 million in fiscal year 2014. DelDOT's total operating revenues increased by $22.2 million (4.8%) while operating expenses increased by $27.0 million (5.0%). The change in revenue is primarily attributable to an increase in toll revenues and an increase in motor vehicle fees a result of continued strong auto sales. The increase in operating expenditures is primarily a result of increases in professional fees and materials and supplies. Total capital assets (net of depreciation) increased $117.2 million to $4,272.3 million during fiscal year 2014, primarily due to the inclusion of the Welcome Center, construction of a motor vehicle center, and purchase of transportation revenue vehicles.

There was no change in the Lottery's net position. By law, the Lottery's net position cannot exceed $1.0 million. Revenue for the Lottery decreased by $34.4 million (5.4%) from the prior year mainly due to increased competition from casinos operating in Maryland and Pennsylvania. The Lottery transferred $256.4 million in gaming revenues to the State, a decrease from fiscal year 2013 of $20.4 million (7.4%). The total costs of games and prizes decreased by 13.6 million (3.9%) over the previous year due to the decrease in video lottery activity.

Revenues by Source – Business-type Activities



Expenses and Program Revenues – Business-type Activities



Financial Analysis of the State's Funds

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

Governmental Funds

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

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

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $1,912.0 million, a decrease of $301.4 million over the prior year fund balance.

Of this amount, $287.9 million is nonspendable (15.0%), either due to its form or legal constraints, $571.0 million (29.9%) is restricted for specific programs by external constraints and $184.1 million (9.6%) is committed for specific purposes pursuant to constraints imposed by a formal action of the Delaware Legislature. An additional $80.3 million (4.2%) has been assigned to specific purposes by management. The remaining $788.7 million (41.3%) of fund balance is unassigned.

General Fund

The General Fund accounts for the operation and administration of the State. The fund balance decreased by $280.3 million for the fiscal year.

Total General Fund revenues decreased by $98.8 million (2.4%) due to several factors. Business taxes and other taxes increased by $9.9 million and $14.1 million, respectively, which was due to increased enforcement efforts and an increase in business profits. These increases were offset by a decrease in personal income taxes of $90.2 million due to increased refunds.

Total General Fund expenditures increased by $226.5 million (5.2%). This was primarily due to increases in General Government of $149.6 million, Health and Children's Services of $34.4 million, Public Safety of $14.7 million, and Education of $17.8 million. The increase in expenditures for Health and Children's Services was due to an increase in the demand for services. General Government increases were due to additional costs for tax enforcement measures and increased costs of benefits and Education increases were the result of additional salaries and benefits to serve a rising student population.

At the end of the current fiscal year, unassigned fund balance of the general fund was $788.7 million with total fund balance of $1,217.2 million.

Federal Funds

Federal Funds represent pass through grants used for designated purposes. These funds report federal grant revenues and the related expenditures to support the State's grant programs. Total federal fund expenditures increased by $342.8 million. Expenditures increased for Health and Children's Service by $362.4 million due largely to increased Medicaid expenditures as a result of the Medicaid expansion.

Local School District Funds

These funds are used to account for activities relating to the State's local school districts, which are funded by locally raised real estate taxes and other revenues. The fund balance decreased by $4.6 million to $289.6 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 $285.7 million in fiscal year 2014, an increase of $59.6 million due to additional projects for both educational institutions and general government.

Proprietary Funds

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

Total Proprietary Fund net position increased in fiscal year 2014 by $182.7 million as a result of operations. Pages 12 - 13 discuss the changes in net position of the business-type activities.

General Fund Budgetary Highlights

The Budgetary General Fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance decreased by $221.4 million.

Revenues were $157.1 million (4.2%) less than the previous fiscal year. This was due to decreases in the corporate income tax of $85.9 million (45.7%), abandoned property of $123.3 million (22.3%) and lottery sales of $20.7 million (8.8%). The $123.3 million decrease in abandoned property was the result of the completion of the transfer agent audit project in fiscal year 2013 which significantly increased revenues in the prior year. Offsetting these revenue decreases were increases in franchise fees of $21.9 million (3.7%) realty transfer taxes of $18.0 million (42.6%), and limited partnership fees of $15.9 million (8.8%).

Expenditures were $135.6 million (3.7%) more than the previous fiscal year. Salaries and wages increased by $21.2 million (1.6%) and pension costs increased by $13.9 million (5.1%) Grants-in-Aid increased by $6.8 million (1.8%), Medicaid costs increased by $24.7 million (3.9%), contractual services increased by $33.3 million (6.9%) and supplies and materials increased by $6.2 million (9.7%).

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 from the 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.

The significant budget expense variances are $51.3 million, $23.6 million and $26.0 million for Executive, Health and Social Services and Education, respectively due to multi-year ongoing projects. Personal income taxes and business income taxes were $15.5 million and 52.7 million, respectively less than expected due to increased refunds.

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

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2014, amounted to $8,024.7 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 $204.1 million (5.8%) and the increase for business-type activities was $117.2 million (2.8%).

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

- The increase in business-type activities is due to increased spending at DelDOT for the Turnpike/SR-1 interchange and the US 301 projects and the inclusion of the Welcome Center as a result of a service concession arrangement and the construction of a motor vehicle center.
- The increase in governmental activities is due to several new school buildings, along with completion of projects for Public Safety and Natural Resources and Environmental Control.

As allowed by GASB the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 4,448 centerline miles and 1,592 bridges that the State is responsible to maintain with a total book value of $3,723.7 million as of June 30, 2014.

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. The Department is using the "modified approach" for determining condition assessments on its roads and bridges. The modified approach requires that the Department initially set a percentage benchmark for maintaining the infrastructure in fair or better condition and report at least every three years on their condition assessment.

Of the State's 1,592 bridges that were rated in fiscal year 2014, 1,198 were rated in good condition, which meets the State's policy of maintaining 75% in good or better 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. 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.

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 State's policy is to maintain at least 85% of its highways at a fair or better, which the State exceeds.

The fiscal year 2014 estimate to maintain and preserve DelDOT's infrastructure was $198.9 million, but the actual expenditures were $234.8 million, which is $35.9 million over the estimate. The estimated expenditures represent annual budget or bond bill authorizations and the actual expenditures represent the current year spending, which includes cumulative authorizations.

Additional information on the State's capital assets can be found in Note 1 on pages 47 - 48, Note 12 on pages 89 - 90 and starting on page 123 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, 2014
Net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	$ 468,211	$ 459,587	$ 288,612	$ 283,876	$ 756,823	$ 743,463
Land Improvements	155,431	153,346	-	-	155,431	153,346
Buildings	2,407,115	2,422,593	99,558	75,271	2,506,673	2,497,864
Easements	79,750	79,750	-	-	79,750	79,750
Equipment, Vehicles and Computer Software	101,881	73,869	126,376	122,577	228,257	196,446
Infrastructure	-	-	3,723,675	3,670,250	3,723,675	3,670,250
Construction-In-Progress	540,045	359,186	34,086	3,140	574,131	362,326
Total	$ 3,752,433	$ 3,548,331	$ 4,272,307	$ 4,155,114	$ 8,024,740	$ 7,703,445

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 $1,825.4 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, 2014, $538.3 million, or 29.5%, of the State's outstanding debt was issued on behalf of local school districts. Local school districts transferred $65.8 million of property tax revenue to the State to cover related debt service during fiscal year 2014**.**

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 2014, debt authorization was limited to $187.0 million.
- A 15% test restricts debt issuance if the annual payments on all outstanding debt exceed 15% of estimated budgetary general fund and Transportation Trust Fund Revenue for the next fiscal year. Currently, these annual payments represent approximately 8% of estimated general fund and Transportation Trust Fund revenues.
- Finally, a cash balance test restricts debt issuance if the debt service payment in any year exceeds the estimated cumulative cash balance for the following fiscal year. For fiscal year 2014, 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 2014. On March 6, 2014, the State issued $225.0 million of general obligation bonds maturing between March 1, 2015 and March 1, 2034. The bonds bear coupon rates of between 3% and 5% and yield between .14% and 3.61%. Proceeds were used to fund various capital projects as authorized by the General Assembly.

In addition, the Sustainable Energy Utility, Inc. (SEU) had $54.5 million of Revenue Bonds, Series 2011 outstanding as of June 30, 2014. These bonds were used to support general government initiatives and have been used to finance construction on energy efficient upgrades to facilities in the State. As such, that debt is reflected in the primary government statements as governmental activities. The bonds are secured by appropriations of the state organizations that are participating in the SEU program, but are not an obligation of 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 $939.1 million to support its ongoing capital transportation program which includes $94.1 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.

Subsequent to year end in November, 2014, the State issued $306.9 million of general obligation bonds, with $81.9 million used to refund higher priced bonds and $225.0 million in new bonds to fund capital projects of the State (See Note 20 on page 116 of this report).

Additional information on the State of Delaware's long-term debt can be found in Notes 5, 6 and 7 on pages 70 - 85 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; debt service to 15% of tax supported revenue; and the 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
- adequate funding of its pension plan.

Economic Factors and Next Year's Budgets and Rates

DEFAC met on June 16, 2014 to prepare the final revenue and expenditure estimates upon which the fiscal year 2015 operating and capital budgets would be based. Forecasters suggest moderate growth with employment growth exceeding the expected national growth. Tax policy and accounting changes are favorable for fiscal 2015 revenue.

The fiscal year 2015 operating and capital budgets meet budgetary spending limitations imposed by law. The fiscal year 2015 operating budget is $3,809.5 million, 2.5% more than fiscal year 2014 and was based on projected revenues by DEFAC of $3,890.0 million. The fiscal year 2015 operating budget included $23.8 million in supplemental appropriations (historically in the form of cash allocated to the capital budget), a decrease of 60.9% over the fiscal year 2014 budget.

Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the

Department of Finance, Division of Accounting, 820 Silver Lake Boulevard, Suite 200, Silver Lake Plaza, Dover, Delaware 19904 or visit our website at http://accounting.delaware.gov.

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

STATE OF DELAWARE
STATEMENT OF NET POSITION
JUNE 30, 2014
(Expressed in Thousands)

	Primary Government			Discretely Presented Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and Cash Equivalents (Note 2)	$ 53,057	$ 134,147	$ 187,204	$ 51,085
Cash and Pooled Investments (Note 2)	1,310,072	16,967	1,327,039	77,872
Receivables, Net (Note 3)	683,063	108,800	791,863	337,869
Interfund Balances (Note 4)	12,744	(12,744)	-	-
Inventories	6,630	17,702	24,332	905
Prepaid Items	-	3,778	3,778	5,033
Escrow Insurance Deposits	-	144	144	-
Investments	131,869	105,751	237,620	583,589
Other Assets	-	2,592	2,592	1,165
Restricted Assets:				
Cash and Pooled Investments (Note 2)	585,921	-	585,921	26,706
Deposit on Hold with Trustee (Note 6)	10,282	-	10,282	-
Restricted Investments	-	130,258	130,258	-
Other Restricted Assets	-	-	-	31,145
Capital Assets: (Note 12)				
Non-Depreciable Assets	1,088,006	4,068,473	5,156,479	46,888
Depreciable Capital Assets, Net	2,664,427	203,834	2,868,261	781,723
Total Capital Assets, Net	3,752,433	4,272,307	8,024,740	828,611
Total Assets	6,546,071	4,779,702	11,325,773	1,943,980
DEFERRED OUTFLOWS OF RESOURCES (Note 1)	-	22,823	22,823	1,557
LIABILITIES				
Accounts Payable	529,908	63,754	593,662	10,996
Accrued Liabilities	48,767	34,062	82,829	19,729
Accrued Interest Payable	31,592	21,975	53,567	-
Unearned Revenue	1,173	-	1,173	1,431
Escrow Deposits	-	10,113	10,113	-
Other Liabilities	-	-	-	-
Advances From Federal Government	-	56,338	56,338	-
Due Within One Year (Note 10)	273,636	90,076	363,712	23,616
Due In More Than One Year (Note 10)	4,318,891	1,142,790	5,461,681	749,916
Total Liabilities	5,203,967	1,419,108	6,623,075	805,688
DEFERRED INFLOWS OF RESOURCES (Note 1)	17,995	19,574	37,569	2,966
NET POSITION				
Net Investment in Capital Assets	1,808,658	3,267,409	5,076,067	598,449
Restricted For:				
Debt Service	-	160,506	160,506	-
Federal and State Regulations	728,406	-	728,406	333,417
Bond Covenants	-	-	-	51,725
Unemployment benefits	-	977	977	-
Other Purposes	-	-	-	42,081
Unrestricted (Deficit)	(1,212,955)	(65,049)	(1,278,004)	111,211
Total Net Position	$ 1,324,109	$ 3,363,843	$ 4,687,952	$ 1,136,883

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenues and Changes in Net Position			Discretely Presented Component Units
			Grants and Contributions		Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating**	**Capital**	**Governmental Activities**	**Business-type Activities**	**Total**	
Primary Government:								
Governmental Activities:								
General Governmental Services	$ 683,643	$ 334,285	$ 25,689	$ -	$ (323,669)	$ -	$ (323,669)	$ -
Health and Children's Services	2,850,068	67,698	1,539,124	-	(1,243,246)	-	(1,243,246)	-
Judicial and Public Safety	705,218	72,664	43,067	-	(589,487)	-	(589,487)	-
Natural Resources and Environmental Control	134,294	52,692	52,852	-	(28,750)	-	(28,750)	-
Labor	68,997	7,135	42,913	-	(18,949)	-	(18,949)	-
Education	2,482,569	3,029	249,609	-	(2,229,931)	-	(2,229,931)	-
Interest on Long-term Debt	59,747	-	-	-	(59,747)	-	(59,747)	-
Total Governmental Activities	6,984,536	537,503	1,953,254	-	(4,493,779)	-	(4,493,779)	-
Business-type Activities:								
Lottery	344,389	600,825	-	-	-	256,436	256,436	-
DelDOT	606,738	488,178	10,335	210,985	-	102,760	102,760	-
Unemployment	110,063	112,746	33,425	-	-	36,108	36,108	-
Total Business-type Activities	1,061,190	1,201,749	43,760	210,985	-	395,304	395,304	-
Total Primary Government	$ 8,045,726	$ 1,739,252	$ 1,997,014	$ 210,985	(4,493,779)	395,304	(4,098,475)	-
Discretely Presented Component Units:								
Delaware State Housing Authority	$ 92,739	$ 40,052	$ 70,405	$ 493	-	-	-	18,211
Diamond State Port Corporation	40,378	35,929	-	11,345	-	-	-	6,896
Riverfront Development Corporation	9,739	2,022	200	3,927	-	-	-	(3,590)
Delaware State University	130,115	55,228	31,565	4,000	-	-	-	(39,322)
Delaware Charter Schools	130,665	13,899	6,903	1,250	-	-	-	(108,613)
Delaware Agricultural Lands Preservation Foundation	3,600	-	4,800	4,941	-	-	-	6,141
Total Discretely Presented Component Units	$ 407,236	$ 147,130	$ 113,873	$ 25,956	-	-	-	(120,277)
General Revenues:								
Taxes:								
Personal Income					1,040,341	-	1,040,341	-
Business					2,061,007	-	2,061,007	-
Real Estate					537,395	-	537,395	-
Other					232,017	-	232,017	-
Unrestricted Payments from Primary Government					-	-	-	150,034
Investment Income					14,192	2,375	16,567	6,826
Gain (Loss) on Disposal of Assets					-	-	-	(502)
Miscellaneous					28,878	-	28,878	1,662
Transfers In (Out)					215,006	(215,006)	-	-
Total General Revenues and Transfers					4,128,836	(212,631)	3,916,205	158,020
Changes in Net Position					(364,943)	182,673	(182,270)	37,743
Net Position - Beginning As Restated (Note 1)					1,689,052	3,181,170	4,870,222	1,099,140
Net Position - Ending					$ 1,324,109	$ 3,363,843	$ 4,687,952	$ 1,136,883

See Accompanying Notes to Basic Financial Statements

STATE OF DELAWARE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014
(Expressed in Thousands)

	General	Federal	Local School Districts	Capital Projects	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	$ 38,377	$ 1,647	$ 13,033	$ -	$ 53,057
Cash and Pooled Investments	1,463,101	-	294,117	138,775	1,895,993
Deposit on Hold with Trustee	10,282	-	-	-	10,282
Investments	131,207	-	662	-	131,869
Accounts Receivable, Net	77,945	8,542	470	-	86,957
Taxes Receivable, Net	104,648	-	38,000	-	142,648
Intergovernmental Receivables, Net	-	142,612	-	-	142,612
Loans and Notes Receivable, Net	29,586	281,260	-	-	310,846
Due from Other Funds	31,768	-	-	-	31,768
Inventories	6,630	-	-	-	6,630
TOTAL ASSETS	$ 1,893,544	$ 434,061	$ 346,282	$ 138,775	$ 2,812,662
LIABILITIES					
Accounts Payable	$ 364,451	$ 129,116	$ 21,468	$ 14,873	$ 529,908
Accrued Liabilities	48,767	-	-	-	48,767
Claims and Judgments	688	-	-	-	688
Escheat Liability	130,000	-	-	-	130,000
Due to Other Funds	2,256	16,768	-	-	19,024
Unearned Revenue	1,173	-	-	-	1,173
Total Liabilities	547,335	145,884	21,468	14,873	729,560
DEFERRED INFLOWS OF RESOURCES	128,970	6,917	35,170	-	171,057
FUND BALANCES					
Nonspendable	6,630	281,260	-	-	287,890
Restricted	157,502	-	289,644	123,902	571,048
Committed	184,091	-	-	-	184,091
Assigned	80,289	-	-	-	80,289
Unassigned (Deficit)	788,727	-	-	-	788,727
Total Fund Balances	1,217,239	281,260	289,644	123,902	1,912,045
TOTAL LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE	$ 1,893,544	$ 434,061	$ 346,282	$ 138,775	$ 2,812,662

See Accompanying Notes to Basic Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2014
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$ 1,912,045
Amounts reported for governmental activities in the statement of net position are different because:		
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	468,211	
Land Improvements	155,431	
Buildings	2,407,115	
Easements	79,750	
Equipment, Vehicles and Software	101,881	
Construction in Progress	540,045	
		3,752,433
Deferred inflows of resources related to the State's revenues that will be collected after year-end, but are not available to pay for the current period's expenditures		171,057
Deferred outflows of resources related to the deferred gains on refunding of bonds		(17,995)
Certain liabilities net of related assets are not due and payable in the current period and are not reported in the fund balance sheet. These liabilities consist of:		
Interest Payable	(31,592)	
Claims and Judgments (Current and Long-term)	(172,842)	
Compensated Absences (Current and Long-term)	(175,933)	
Other Post Employment Benefits	(1,882,038)	
Pollution Remediation Obligations (Current and Long-term)	(24,863)	
Notes Payable	(28,122)	
Net Pension Obligation	(120,467)	
General Obligation Long-term Debt and Related Accounts	(2,054,427)	
Other Long-term Obligations	(3,147)	
		(4,493,431)
Total Net Position of Governmental Activities		$ 1,324,109

See Accompanying Notes to Basic Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	General	Federal	Local School District Fund	Capital Projects	Total Governmental Funds
Revenues					
Personal Taxes	$ 1,040,341	$ -	$ -	$ -	$ 1,040,341
Business Taxes	2,061,007	-	-	-	2,061,007
Other Tax Revenue	232,017	-	537,395	-	769,412
Licenses, Fees, Permits and Fines	351,227	-	562	-	351,789
Rentals and Sales	77,653	-	8,775	-	86,428
Grants	42,785	1,890,212	3,500	-	1,936,497
Interest and Other Investment Income	12,533	-	1,637	-	14,170
Other	176,870	-	18,476	-	195,346
Total Revenues	3,994,433	1,890,212	570,345	-	6,454,990
Expenditures					
Current:					
General Government	596,890	13,183	-	-	610,073
Health and Children's Services	1,359,792	1,489,836	-	-	2,849,628
Judicial and Public Safety	635,306	27,766	-	-	663,072
Natural Resources and Environmental Control	142,691	32,854	-	-	175,545
Labor	31,802	36,150	-	-	67,952
Education	1,462,537	233,653	488,448	-	2,184,638
Unrestricted Payments to Component Unit - Education	115,543	-	34,491	-	150,034
Capital Outlay	-	-	-	285,705	285,705
Debt Service:					
Principal	157,372	-	-	-	157,372
Interest and Other Charges	77,693	-	-	-	77,693
Costs of Issuance of Debt	975	-	-	-	975
Total Expenditures	4,580,601	1,833,442	522,939	285,705	7,222,687
Excess (Deficiency) of Revenues Over (Under) Expenditures	(586,168)	56,770	47,406	(285,705)	(767,697)
Other Sources (Uses) of Financial Resources					
Transfers In	380,794	2,910	62,789	-	446,493
Transfers Out	(76,795)	(39,077)	(114,827)	(788)	(231,487)
Issuance of General Obligation Bonds	-	-	-	225,000	225,000
Premiums on Bond Sales	-	-	-	24,413	24,413
Other Financing Sources	1,867	-	-	-	1,867
Total Other Sources (Uses) of Financial Resources	305,866	(36,167)	(52,038)	248,625	466,286
Net Change in Fund Balances	(280,302)	20,603	(4,632)	(37,080)	(301,411)
Fund Balances - Beginning as Restated (Note 1)	1,497,541	260,657	294,276	160,982	2,213,456
Fund Balances - Ending	$ 1,217,239	$ 281,260	$ 289,644	$ 123,902	$ 1,912,045

See Accompanying Notes to Basic Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENT FUNDS TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

Net Changes in Fund Balances		$ (301,411)
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	326,661	
Depreciation Expense	(122,559)	
		204,102
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		16,690
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Components of the debt related adjustments consist of:		
Debt Service Principal Repayments	157,372	
New Debt Issued (Face Value)	(225,000)	
Premium Received	(24,413)	
Amortization of Premiums	16,108	
Amortization of Gain on Refundings on Debt	1,833	
		(74,100)
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	(1,293)	
Claims and Judgments	(5,616)	
Compensated Absences	(3,186)	
Other Post Employment Benefits	(200,031)	
Pollution Remediation Obligation	2,694	
Pension Obligation	(1,379)	
Notes Payable	(542)	
Other Liabilities	(871)	(210,224)
Change in Net Position in the Statement of Activities		$ (364,943)

STATE OF DELAWARE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
ASSETS				
Cash and Cash Equivalents	$ 59,887	$ 789	$ 73,471	$ 134,147
Cash and Pooled Investments	282	2,330	14,355	16,967
Accounts Receivable, Net	13,522	12,418	18,190	44,130
Taxes Receivable, Net	25,094	-	-	25,094
Intergovernmental Receivables, Net	-	-	39,121	39,121
Interest Receivable	-	-	455	455
Inventories	-	-	17,702	17,702
Prepaid Items	-	-	3,778	3,778
Escrow Insurance Deposits	-	-	144	144
Due from Other Funds	1,242	1,014	-	2,256
Investments:				
Unrestricted	-	-	105,751	105,751
Restricted	-	114	130,144	130,258
Other Assets	-	2,592	-	2,592
Capital Assets:				
Capital Assets, Non-depreciable	-	-	4,068,473	4,068,473
Capital Assets, Depreciable, Net	-	-	203,834	203,834
Total Capital Assets, Net	-	-	4,272,307	4,272,307
Total Assets	100,027	19,257	4,675,418	4,794,702
DEFERRED OUTFLOWS OF RESOURCES	-	-	22,823	22,823
LIABILITIES				
Accounts Payable	2,655	7,842	53,257	63,754
Accrued Liabilities	23,872	4,739	5,451	34,062
Escrow Deposits	-	-	10,113	10,113
Interest Payable	1,242	-	20,733	21,975
Advances from Federal Government	56,281	-	57	56,338
Due to Other Funds	15,000	-	-	15,000
Due Within One Year (Note 10)	-	-	90,076	90,076
Due in More Than One Year (Note 10)	-	5,676	1,137,114	1,142,790
Total Liabilities	99,050	18,257	1,316,801	1,434,108
DEFERRED INFLOWS OF RESOURCES	-	-	19,574	19,574
NET POSITION				
Net Investment in Capital Assets	-	-	3,267,409	3,267,409
Restricted for:				
Debt Service	-	-	160,506	160,506
Unemployment Benefits	977	-	-	977
Unrestricted (Deficit)	-	1,000	(66,049)	(65,049)
Total Net Position	$ 977	$ 1,000	$ 3,361,866	$ 3,363,843

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Operating Revenues:				
Unemployment Taxes-State Funded	$ 112,746	$ -	$ -	$ 112,746
Gaming Revenue	-	600,825	-	600,825
Pledged Revenues:				
Turnpike Revenue	-	-	122,404	122,404
Motor Vehicle and Related Revenue	-	-	277,262	277,262
Turnpike Revenue	-	-	47,562	47,562
Passenger Fares	-	-	16,332	16,332
Miscellaneous	-	-	21,205	21,205
Total Operating Revenues	112,746	600,825	484,765	1,198,336
Operating Expenses:				
Unemployment Benefits - State Funded	91,212	-	-	91,212
Unemployment Benefits - Federal Funded	17,145	-	-	17,145
Cost of Sales	-	230,474	-	230,474
Prizes	-	101,994	-	101,994
Transportation	-	-	520,513	520,513
Depreciation	-	-	33,697	33,697
General and Administrative	-	10,921	13,998	24,919
Total Operating Expenses	108,357	343,389	568,208	1,019,954
Operating Income (Loss)	4,389	257,436	(83,443)	178,382
Nonoperating Revenues (Expenses):				
Interest Income	94	-	2,281	2,375
Interest Expense	(1,706)	-	(38,530)	(40,236)
Unemployment Taxes-Federal Funded	18,167	-	-	18,167
Grants	-	-	10,335	10,335
Other Revenue	15,258	-	3,413	18,671
Contributions to Thoroughbred Program	-	(1,000)	-	(1,000)
Total Nonoperating Revenues (Expenses)	31,813	(1,000)	(22,501)	8,312
Income (Loss) Before Transfers and Capital Contributions	36,202	256,436	(105,944)	186,694
Capital Contributions	-	-	210,985	210,985
Transfers In	1,706	-	48,467	50,173
Transfers Out	-	(256,436)	(8,743)	(265,179)
Increase in Net Position	37,908	-	144,765	182,673
Net Position - Beginning of Year, as restated (Note 1)	(36,931)	1,000	3,217,101	3,181,170
Net Position - End of Year	$ 977	$ 1,000	$ 3,361,866	$ 3,363,843

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Cash Flows from Operating Activities:				
Receipts from Employers	$ 116,425	$ -	$ -	$ 116,425
Payments for Insurance Claims	(112,394)	-	(3,961)	(116,355)
Receipts from Customers and Users	-	599,425	481,661	1,081,086
Other Operating Receipts	-	-	2,900	2,900
Payments to Suppliers for Goods and Services	-	(42,481)	(316,709)	(359,190)
Payments to Employees for Services	-	(5,946)	(177,135)	(183,081)
Payments for Prizes	-	(101,987)	-	(101,987)
Payment for Commissions	-	(192,089)	-	(192,089)
Net Cash Provided (Used) by Operating Activities	4,031	256,922	(13,244)	247,709
Cash Flows from Noncapital Financing Activities:				
Receipts from Federal Government	18,167	-	4,516	22,683
Receipts from Other Grants	-	-	2,159	2,159
Loan from State Government	15,000	-	-	15,000
Interest paid on Advances	(1,988)	-	-	(1,988)
Transfers In	1,988	-	48,467	50,455
Transfers Out	-	(257,397)	(15,419)	(272,816)
Net Cash Provided (Used) by Noncapital Financing Activities	33,167	(257,397)	39,723	(184,507)
Cash Flows from Capital and Related Financing Activities:				
Capital Grants	-	-	207,200	207,200
Purchases of Capital Assets	-	-	(128,158)	(128,158)
Principal Paid on Capital Debt	-	-	(84,593)	(84,593)
Interest Paid on Capital Debt	-	-	(47,746)	(47,746)
Loss from Refunding of Bond Sale	-	-	8,090	8,090
Proceeds from Sale of Land and Equipment	-	-	454	454
Bond Issuance Costs	-	-	2,381	2,381
Proceeds from Bond Issues	-	-	15,983	15,983
Net Cash Used by Capital and Related Financing Activities	-	-	(26,389)	(26,389)
Cash Flows from Investing Activities:				
Interest and Investment Revenues	94	-	2,200	2,294
Repayment on Loan Receivable	-	-	887	887
Escrow Deposits Received	-	-	37	37
Purchase of Investments	-	-	(23,433)	(23,433)
Proceeds from Sales and Maturities of Investments	-	95	26,946	27,041
Net Cash Provided by Investing Activities	94	95	6,637	6,826
Net Increase (Decrease) in Cash, Cash Equivalents and Pooled Investments	37,292	(380)	6,727	43,639
Cash, Cash Equivalents and Pooled Investments- Beginning of Year	22,877	3,499	81,099	107,475
Cash, Cash Equivalents and Pooled Investments - End of Year	$ 60,169	$ 3,119	$ 87,826	$ 151,114
Reconciliation of Operating Income (Loss) to Net Cash	-			
Provided (Used) by Operating Activities:				
Operating Income (Loss)	$ 4,389	$ 257,436	$ (83,443)	$ 178,382
Adjustments to Reconcile Operating Income (Loss) to Net Cash				
Provided (Used) by Operating Activities:				
Depreciation Expense	-	-	33,697	33,697
Decrease (Increase) in Assets:				
Receivables, Net	3,679	(1,348)	(293)	2,038
Inventories	-	-	723	723
Prepaid Items	-	-	616	616
Increase (Decrease) in Liabilities:				
Accounts and Other Payables	(4,037)	-	7,342	3,305
Accrued Liabilities	-	(145)	(437)	(582)
Accrued Expenses	-	7	4,290	4,297
Accrued Payroll and Related Expenses	-	972	(1,966)	(994)
Post-Employment Benefits	-	-	26,227	26,227
Due To/From Government	-	-	-	-
Net Cash Provided (Used) by Operating Activities	$ 4,031	$ 256,922	$ (13,244)	$ 247,709
Schedule of Noncash Noncapital Financing Activities				
Capital Contributions	$ -	$ -	$ 3,785	$ 3,785
Forgiveness of Advances from Federal Government	15,258	-	-	15,258

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust	Agency
Assets:				
Cash and Cash Equivalents	$ 576,925	$ 6,989	$ 3,512	$ 28,924
Cash and Pooled Investments	4,402	46,206	-	34,253
Receivables:				
Accrued Interest	14,968	-	74	-
Investment Sales Pending	28,396	-	154	-
Employer Contributions	10,869	6,856	-	-
Member Contributions	3,174	51	-	-
Other Receivables	-	-	-	48,007
Investments, at Fair Value:				
Domestic Fixed Income	327,811	96,463	7,015	-
Domestic Equities	2,054,887	96,270	16,301	-
Pooled Equity and Fixed Income	3,179,884	-	17,290	-
Alternative Investments	1,745,297	-	9,490	-
Short Term Investments	-	-	-	2,396
Foreign Fixed Income	188,010	-	1,022	-
Foreign Equities	1,104,654	49,727	8,703	-
Total Assets	9,239,277	302,562	63,561	113,580
Liabilities:				
Accounts Payable	-	-	-	113,580
Investment Purchase Payable	42,437	-	231	-
Benefits/Claims Payable	1,325	12,331	-	-
Accrued Investment Expense	5,172	7	28	-
Accrued Administrative Expenses	283	-	-	-
Total Liabilities	49,217	12,338	259	113,580
Net Position:				
Assets Held in Trust for Benefits and Pool Participants	$ 9,190,060	$ 290,224	$ 63,302	$ -

STATE OF DELAWARE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust
Additions:			
Contributions:			
Employer Contributions	$ 255,067	$ 196,361	$ -
Transfer of Contributions from Post-Retirement Increase Fund	27,536	-	-
Transfer of Assets from Outside the System	2,938	6,253	616
Member Contributions	63,019	8,082	-
Other	31	-	-
Total Contributions	348,591	210,696	616
Investments:			
Investment Earnings	126,577	5,354	982
Net Increase in Fair Value of Investments	1,266,785	25,845	8,274
Total Investment Earnings	1,393,362	31,199	9,256
Less Investment Manager/Advisor/Custody Fees	(23,653)	(83)	(132)
Less Investment Administrative Expenses	(570)	-	-
Net Investment Earnings	1,369,139	31,116	9,124
Securities Lending Income	428	-	2
Securities Lending Expense	(65)	-	-
Total Net Securities Lending Income	363	-	2
Total Additions	1,718,093	241,812	9,742
Deductions:			
Transfer of Assets from Post-Retirement Increase Fund	27,536	-	-
Transfer of Assets from Outside the System	971	-	741
Pension/Claim Payments	544,395	173,216	-
Refunds of Contributions to Members	3,980	-	-
Group Life Payments	5,328	-	-
Administrative Expenses	5,621	62	1
Total Deductions	587,831	173,278	742
Change in Net Position	1,130,262	68,534	9,000
Net Position - Beginning of Year	8,059,798	221,690	54,302
Net Position - End of Year	$ 9,190,060	$ 290,224	$ 63,302

STATE OF DELAWARE
COMBINING STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2014
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	Delaware Agricultural Lands Preservation Foundation	Total
ASSETS							
Cash and Cash Equivalents	$ 37,876	$ 6,569	$ 347	$ 6,293	$ -	$ -	$ 51,085
Cash and Pooled Investments	11,498	-	5	21,261	39,039	6,069	77,872
Accounts and Other Receivables, Net	53,982	2,224	456	13,021	1,839	64	71,586
Loans and Notes Receivable, Net	260,083	-	2,990	-	-	3,210	266,283
Inventories	-	905	-	-	-	-	905
Prepaid Items	3,619	779	116	-	519	-	5,033
Investments	570,714	-	-	12,863	12	-	583,589
Other Assets	2	-	672	398	93	-	1,165
Restricted Assets:							
Cash, Cash Equivalents and Investments	833	4,396	2,000	16,243	3,234	-	26,706
Other Restricted Assets	-	21,299	-	9,234	612	-	31,145
Capital Assets:							
Capital Assets - Non-Depreciable	3,686	27,237	-	-	15,965	-	46,888
Capital Assets - Depreciable, Net	13,375	137,731	108,689	226,103	76,972	218,853	781,723
Total Capital Assets, Net	17,061	164,968	108,689	226,103	92,937	218,853	828,611
Total Assets	955,668	201,140	115,275	305,416	138,285	228,196	1,943,980
DEFERRED OUTFLOWS OF RESOURCES	271	232	-	-	1,054	-	1,557
LIABILITIES							
Accounts Payable	1,073	257	345	5,980	3,315	26	10,996
Due to Other	-	-	-	-	-	-	-
Accrued Liabilities	8	5,706	174	3,836	9,995	10	19,729
Unearned Revenue	-	37	73	1,238	83	-	1,431
Due Within One Year	11,146	1,811	3,622	4,819	2,218	-	23,616
Due in More Than One Year	510,641	23,451	10,000	121,801	84,023	-	749,916
Total Liabilities	522,868	31,262	14,214	137,674	99,634	36	805,688
DEFERRED INFLOWS OF RESOURCES	391	267	-	820	1,488	-	2,966
Net Position							
Net Investment in Capital Assets	17,062	139,671	97,067	115,572	10,224	218,853	598,449
Restricted for:							-
Federal and State Regulations	323,216	-	-	894	-	9,307	333,417
Bond Covenants	51,725	-	-	-	-	-	51,725
Other Purposes	-	25,695	-	16,386	-	-	42,081
Unrestricted	40,677	4,477	3,994	34,070	27,993	-	111,211
Total Net Position	$ 432,680	$ 169,843	$ 101,061	$166,922	$ 38,217	$ 228,160	$ 1,136,883

STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

(Expressed in Thousands)

		Program Income			Net (Expenses) Revenues and Changes in Net Position						
			Grants and Contributions								
	Expenses	Charges for Services	Operating	Capital	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	Delaware Agricultural Lands Preservation Foundation	Total
Discretely Presented Components Units											
Delaware State Housing Authority	$ 92,739	$ 40,052	$ 70,405	$ 493	$ 18,211	$ -	$ -	$ -	$ -	$ -	$ 18,211
Diamond State Port Corporation	40,378	35,929	-	11,345	-	6,896	-	-	-	-	6,896
Riverfront Development Corporation	9,739	2,022	200	3,927	-	-	(3,590)	-	-	-	(3,590)
Delaware State University	130,115	55,228	31,565	4,000	-	-	-	(39,322)	-	-	(39,322)
Delaware Charter Schools	130,665	13,899	6,903	1,250	-	-	-	-	(108,613)	-	(108,613)
Delaware Agricultural Lands Preservation Foundation	3,600	-	4,800	4,941	-	-	-	-	-	6,141	6,141
	$ 407,236	$ 147,130	$ 113,873	$ 25,956	18,211	6,896	(3,590)	(39,322)	(108,613)	6,141	(120,277)
General Revenues											
Unrestricted Payments from Primary Government							-	34,613	115,421	-	150,034
Investment Income					2,880	22	-	3,773	150	1	6,826
Gain on Disposal of Assets					-	-	-	-	(502)	-	(502)
Miscellaneous					-	-	175	-	808	679	1,662
Total General Revenues					2,880	22	175	38,386	115,877	680	158,020
Change in Net Position					21,091	6,918	(3,415)	(936)	7,264	6,821	37,743
Net Position - Beginning of Year as Restated (Note 1)					411,589	162,925	104,476	167,858	30,953	221,339	1,099,140
Net Position - Ending of Year					$ 432,680	$ 169,843	$ 101,061	$ 166,922	$ 38,217	$ 228,160	$ 1,136,883

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Reporting Entity

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

The Delaware Technical and Community College (DTCC) was established by 14 Del. C. 91 as a state organization to operate or make available public institutions of learning for persons who have graduated from high school or who are unable to attend public high schools and offer a 2-year college parallel program or associate degree program. The Governor with the consent of the Senate appoints all seven members of the Board of Trustees. DTCC is considered a blended component unit and is shown a part of the Education function in the General Fund of the primary government.

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

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

The decision to include and how to report a component unit in the State's reporting entity is based on several criteria, including legal standing, debt responsibility, fiscal dependency, and financial accountability. The State is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The State may also be financially accountable if an organization is fiscally dependent on the State and there is a potential for the organization to provide specific benefits to or impose specific financial burdens on the State, regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Blended Component Units

The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity, which includes its blended component unit, the First State Independence Fund I, LLC, a hedge fund-of-funds for which DPERS is considered to be financially accountable. DPERS' Board is comprised of five members appointed by the Governor and confirmed by the State Senate, plus two ex-officio members. It provides services and benefits almost exclusively to the primary government, and it is considered a blended fiduciary funds component unit and is shown in the financial statements as part of the primary government as a pension trust fund. The financial report of DPERS for the fiscal year ended June 30, 2014 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.

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

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

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

Discretely Presented Component Units

The following component units are entities that are legally separate from the State, but are financially accountable to the State for reporting purposes or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading. The discretely presented component units' column of the basic financial statements includes the financial data of these entities. Each discretely presented component unit has a June 30, 2014 fiscal year-end.

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

Delaware State Housing Authority (DSHA)

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

Diamond State Port Corporation (DSPC)

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

Riverfront Development Corporation (RDC)

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

Delaware State University (DSU)

Delaware State University is a public institution of higher education. Funding is primarily through State appropriations. State appropriations, without restrictions as to use by the DSU, are reported in general revenue. Additional funding is derived from tuition, federal grants, private donations and grants. The Board of Trustees is comprised of fifteen members, eight appointed by the Governor of Delaware and seven elected by the Trustees. The President of DSU and the Governor of the State of Delaware serve as ex-officio members of the Board. Delaware State University financial data includes its two component units, the Delaware State University Student Housing Foundation and the Delaware State University Foundation, Inc. The State annually appropriates funding for DSU, which totaled more than $33 million in fiscal year ending June 30, 2014, which is twenty eight percent of DSU's total revenues.

Delaware Charter Schools

The State's 21 Charter Schools are public schools funded primarily through State appropriations. Additional funding is derived from federal grants passed through from the primary government, private donations and funds received from local school districts on a tax portion per child basis. State funding for the Charter Schools totaled $115.5 million for fiscal year ending June 30, 2014 which represents over eighty-three percent of the Charter Schools' total revenues. Each Charter School is a separate legal entity managed by their own separate board of directors and operate independently under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Charter Schools issue their own debt but are dependent on the State for their primary funding. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial to the State's basic financial statements.

Delaware Agricultural Lands Preservation Foundation (DALPF)

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

Related Organizations

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

The Delaware Solid Waste Authority (DSWA) is a legally separate entity and the primary government appoints all seven members of its governing board. The primary government's accountability for DSWA does not extend beyond making the appointments. The DSWA is responsible for implementing solid waste disposal, recycling, and resource recovery systems, facilities and services for the State of Delaware. The financial activities of DSWA are not included in the State's financial statements.

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

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

Jointly Governed Organization

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

Other Organization

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

Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

Governmental Funds

The State reports the following major governmental funds:

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

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

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

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

Proprietary Funds

Proprietary funds are used to account for those activities which are financed and operated in a manner similar to private business enterprises. The costs of providing services to the public on a continuing basis are financed by or recovered primarily through user charges.

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

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

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

The State reports the following major proprietary funds:

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

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

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

Fiduciary Funds

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

The State reports the following fiduciary funds:

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

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

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

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

New Accounting Pronouncements

During fiscal year ending June 30, 2014, the State adopted GASB Statement 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. This statement also provides other financial reporting guidance related to the impact of the financial statements elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of major fund calculations and limiting the use of the term deferred in the financial statement presentations. The adoption of this statement had an effect on the Statement of Net Position and Governmental Funds Balance Sheet as amounts previously reported as assets and liabilities are now reported as deferred outflows of resources and deferred inflows of resources. Specifically, retrospective restatement adjustments of beginning equity were made to eliminate the unamortized portion of bond issuance costs and to recognize revolving loan activity that was previously reported as unearned revenues as follows:

Government Wide Statement of Net Position

(Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Total	Discretely Presented Component Units
Net Position as previously reported at June 30, 2013	$ 1,693,621	$ 3,183,550	$ 4,877,171	$ 1,109,260
Apply GASB 65:				
Deferred Bond Costs	(5,796)	(2,380)	(8,176)	(2,069)
Revolving Loan Activity	1,227	-	1,227	-
	1,689,052	3,181,170	4,870,222	1,107,191
Other:				
Delaware State University (receivable)	-	-	-	(970)
Delaware State Housing (fair value of loans)	-	-	-	(7,081)
	$ 1,689,052	$ 3,181,170	$ 4,870,222	$ 1,099,140

Governmental Funds Balance Sheet
(Expressed in Thousands)

	General	Federal	Local School District Fund	Capital Projects	Total
Fund balance as previously reported at June 30, 2013	$ 1,448,537	$ (914)	$ 294,276	$ 160,982	$ 1,902,881
Revolving Loans	49,004	261,571	-	-	310,575
Fund balance as restated at July 1, 2013	$ 1,497,541	$ 260,657	$ 294,276	$ 160,982	$ 2,213,456

Proprietary Funds Statement of Net Position
(Expressed in Thousands)

	Unemployment Insurance	Lottery	DelDOT	Total
Net position as previously reported at June 30, 2013	$ (36,931)	$ 1,000	$ 3,219,481	$ 3,183,550
Bond Issuance Costs	-	-	(2,380)	(2,380)
Net Position as restated at July 1, 2013	$ (36,931)	$ 1,000	$ 3,217,101	$ 3,181,170

During fiscal year ending June 30, 2014, the State adopted GASB Statement No. 66 *Technical Corrections—2012— an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement amends Statement No. 10 *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The adoption of Statement No. 66 had no impact on the financial statements of the State.

During fiscal year ending June 30, 2014, the State adopted GASB Statement No. 67 *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement will replace the requirements of Statements No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50 *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The adoption of Statement No. 67 has resulted in changes to the enhancements to the note disclosures and schedules of required supplemental information in the financial statements of DPERS (See Note 15).

During fiscal year ending June 30, 2014, the State adopted GASB Statement No. 70 *Accounting and Reporting for Non-exchange Financial Guarantees***.** Some governments extend financial guarantees for the obligations of another government, a not-for-profit organization, a private entity, or individual without directly receiving equal or approximately equal value in exchange (a non-exchange transaction). As a part of this non-exchange financial guarantee, a government commits to indemnify the holder of the obligation if the entity or individual that issued the obligation does not fulfill its payment requirements. Also, some governments issue obligations that are guaranteed by other entities in a non-exchange transaction. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. The adoption of Statement No. 70 had no impact on the financial statements of the State.

Impact of Future Accounting Pronouncements

In June of 2012, the GASB issued No. 68 *Accounting and Financial Reporting for Pensions – An Amendment to GASB Statement No. 27***.** The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement and Statement No. 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement — determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. In addition, this Statement details the recognition and disclosure requirements for employers that participate in a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan. This Statement is effective for fiscal years beginning after June 15, 2014. This will result in an additional liability of approximately $630 million, which will be included on the statement of net position.

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

In 2013, the GASB issued Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. This statement amends Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this statement are effective for fiscal years beginning after June 15, 2014, concurrent with Statement No. 68. This will result in reporting a deferred outflow of resources for any contribution made after the measurement date of the beginning net pension liability.

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

Cash Equivalents, Cash and Pooled Investments, and Investments

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

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

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

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

DPERS or management generally uses net asset value as reported by investment managers as a practical expedient to fair value for its investments in pooled and alternative investment funds. Net asset values provided by pooled and alternative investment managers are based on quoted prices for the funds' underlying securities (most of which are marketable), as well as estimates, appraisals, assumptions, and methods that are established by valuation committees and reviewed by DPERS or management. Net asset value may differ from fair value, and under some circumstances, DPERS or management may determine, based on other information available, that an underlying investment's reported valuation does not represent fair value. These net asset values are reviewed by DPERS or management and its investment advisor; both management and the custodian receive periodic and audited annual financial reports from the alternative fund managers.

Receivables and Payables

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

Inventories and Prepaid Items

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

Restricted Assets

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

The State has the following restricted assets:

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

The discretely presented component units have the following restricted assets:

- Diamond State Port Corporation has restricted investments for capital project outlays.
- Delaware State University has restricted assets for grants, and college endowment funds.
- Delaware State Housing Authority has restricted assets used for the specific purpose of housing development fund activities per enabling legislation.

Capital Assets

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

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

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, equipment, and software of the primary government and component units, other than those associated with service concession agreements, are depreciated using the straight line method over the following estimated useful lives:

Asset	**Primary Government Years**	**Discretely Presented Component Unit Years**
Buildings and Building Improvements	10 - 40	15 - 75
Land Improvements	20	15 - 45
Furniture and Equipment	3 - 12	3 - 40
Vehicles	7	3 - 6
Software	5	5 - 10

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.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources are defined as consumption of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources are defined as acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows increase net position, similar to assets and deferred inflows decrease net position, similar to liabilities.

The components of deferred outflows of resources and deferred inflows of resources reported in the government wide financial statements as of June 30, 2014 are as follows:

(Expressed in Thousands)

	Governmental Activities	Business-type Activities	Total Primary Government	Discretely Presented Component Units
Deferred Outflows of Resources				
Loss on Refundings of Debt	$ -	$ 22,823	$ 22,823	$ 503
Derivative Instrument - Interest Rate Swap	-	-	-	1,054
Total Deferred Outflows of Resources	$ -	$ 22,823	$ 22,823	$ 1,557
Deferred Inflows of Resources				
Service Concession Arrangement	$ -	$ 19,574	$ 19,574	$ -
Derivative Instrument -Interest Rate Swap	-	-	-	1,488
Gain on Refundings of Debt	17,995	-	17,995	1,478
Total Deferred Inflows of Resources	$ 17,995	$ 19,574	$ 37,569	$ 2,966

Deferred inflows of resources on the governmental funds balance sheet as of June 30, 2014 are unavailable revenues as follows:

(Expressed in Thousands)

	General Fund	Federal Fund	Local School District Fund	Total Governmental Funds
Deferred Inflows of Resources				
Accounts Receivable	$ 62,140	$ 6,917	$ 160	$ 69,217
Taxes Receivable	66,830	-	35,010	101,840
Total Deferred Inflows of Resources	$ 128,970	$ 6,917	$ 35,170	$ 171,057

Advances from Federal Government

In previous years, the amount of unemployment insurance taxes collected by the Division of Unemployment Insurance from Delaware employers was not sufficient to cover the amount of benefits paid to Delaware residents. As a result, the unemployment fund received advances from the federal government to be used for benefit payments. Pursuant to Subchapter XII – *Advances to State Unemployment Funds, 42 U.S.C. §1321*, advances are made to the unemployment fund once all funds in the trust have been extinguished, and amounts borrowed must be no more than the aggregate amount necessary to provide benefit payments in any three-month period, as certified by the Federal Secretary of Labor. These advances must be repaid when funds become available in the Unemployment Fund. Interest accrues daily, and the interest rate varies, based upon the outstanding balance of the loan. Interest is due annually on September 30 and is to be paid using appropriations from the State General Fund. Total accrued interest was $1.2 million as of June 30, 2014 and a corresponding receivable due from the State General Fund has been accrued accordingly. The outstanding advance balance totaled $56.3 million as of June 30, 2014. $15.3 million of the advance was forgiven by the federal government during the fiscal year ending June 30, 2014.

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 are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental funds recognize bond premiums and discounts 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.

Fund Equity

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

The State Constitution provides that certain excess unencumbered budgetary general funds at the end of a fiscal year must be placed in a reserve account (the Budgetary Reserve Account). This account, designed to mitigate the operational impact of any future unanticipated deficits may not exceed 5% of the estimated general fund revenue for the ensuing fiscal year. Total funding of the budgetary reserve account was $201.7 million at June 30, 2014.

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

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

(d) Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables when entitlement occurs. All other federal reimbursement type grants are recorded as accounts receivable when the related expenditures or expenses are recognized. Related revenue is recorded subject to availability in the governmental funds.

(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 $13.7 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of $29.7 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.

(f) Management Estimates

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

NOTE 2 CASH, INVESTMENTS AND RESTRICTED ASSETS

Cash Management Policy and Investment Guidelines

The State Treasurer maintains the majority of the deposits and investments of the primary government and uses professional money managers to invest the State's deposits according to guidelines set in the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) by the State's Cash Management Policy Board (the Board). The

Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in DPERS 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 in various pooled investment funds (State Investment Pool), except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board. The deposit and investment policies of those entities may differ from those of the State Treasurer. Typically, these agencies follow the deposit and investment policies of the State Treasurer in an effort to minimize deposit and investment risks.

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

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

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

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

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

    - Endowment Accounts - Endowment accounts consist of funds set-aside for specified purposes.

- Authority Accounts - The State's Authorities (state agencies, local school districts and component units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

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

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

Additional permissible investments for special-purpose accounts only:

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

The primary government's accounts are categorized as "authority accounts". At June 30, 2014, 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 60 - 65.

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, 2014, the carrying amount of the primary government’s deposits was $370.3 million and the bank balance was $404.8 million. Of the $404.8 million bank balance, $76.0 million was fully insured; $59.9 million represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury; and the remaining $268.9 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 $28.9 million and the bank balance was $32.0 million. Of the $32.0 million bank balance, $1.9 million was fully insured and the remaining $30.1 million was subject to custodial credit risk because the deposits were not covered by depository insurance or the deposits were uncollateralized, collateralized with securities held by the pledging financial institutions, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in the government’s name.

Of the primary government’s bank balance of $404.8 million, $216.4 million is part of the Treasurer’s cash pool and the remaining balance represents outside bank accounts of the primary government.

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

Investments

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

At June 30, 2014, the primary government's investments were $2,146.4 million. Of the primary government's investments, $364.9 million was fully insured and collateralized. Included in the primary government's investments of $2,146.4 million are agency funds. The amount of the agency funds' investments was $36.6 million.

The following table provides information on $1,781.5 million of the primary government's cash and pooled investments that are exposed to custodial credit risk; $34.2 million of this amount represents the agency funds' investments:

Investment Type	**Fair Value (Expressed in Thousands)**
Certificates of Deposit	$ 99,918
Commercial Paper	93,925
Corporate Obligations	505,007
U.S. Government Obligations	865,276
Municipal Obligations	16,297
Money Market	34,250
Other Pooled	1,070
Other Obligations	165,757
	$ 1,781,500

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, 2014:

Investment Type	**Treasurer's Pool**	**Outside Treasurer's Pool**	**Total Investments** (Expressed in Thousands)	**Effective Duration (In Years)**
Corporate Obligations	$ 505,007	$ -	$ 505,007	1.46
Municipal Obligations	16,297	-	16,297	3.99
U.S. Government Obligations	865,276	165,084	1,030,360	1.56
Non-U.S. Government Obligations	-	825	825	N/A
Other Obligations	165,643	734	166,377	1.92
Other Pooled	-	127,862	127,862	N/A
Money Market	34,250	-	34,250	N/A
Commercial Paper	93,911	70,305	164,216	0.48
Certificates of Deposit	95,735	5,465	101,200	0.80
	$ 1,776,119	$ 370,275	$ 2,146,394	

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, 2014, the primary government and agency funds had the following debt investments and maturities:

Investment Maturity
(Expressed in Thousands)

		Investment Maturities			
Investment Type	**Fair Value**	**Less Than 1**	**1 to 5**	**6 to 10**	**More than 10**
Corporate Obligations					
Corporate Bonds	$ 436,378	$ 159,744	$ 263,398	$ 13,236	$ -
Asset-Backed Securities	68,629	4,027	63,579	1,023	-
Municipal Obligations	16,297	1,422	13,346	1,240	289
U.S. Government Obligations					
U.S. Treasury Bonds, Notes	531,648	210,769	296,666	24,213	-
U.S. Agency Bonds, Notes	498,712	127,072	296,164	65,274	10,202
Non US Gov't Obligations	825	825	-	-	-
Other Obligations					
Private Placements	166,377	55,876	110,454	47	-
Pooled Investments	127,862	127,862	-	-	-
Money Market	34,250	34,250	-	-	-
Commercial Paper	164,216	161,457	2,759	-	-
Certificate of Deposit	101,200	89,437	11,763	-	-
Total Investments	**$ 2,146,394**	**$ 972,741**	**$ 1,058,129**	**$ 105,033**	**$ 10,491**

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, 2014 the ratings are presented using S & P's rating scale:

Credit Risk - Quality Ratings
(Expressed in Thousands)

Investment Type	**TOTAL**	**AAA**	**AA**	**A**	**A-1**	**NR**
Corporate Obligations						
Corporate Bonds	$ 436,378	$ 24,361	$ 279,248	$ 126,906	$ -	$ 5,863
Asset-Backed Securities	68,629	50,815	-	-	-	17,814
Municipal Obligations	16,297	-	16,207	-	-	90
U.S. Government Obligations						
U.S. Treasury Bonds, Notes	531,648	-	531,648	-	-	-
U.S. Agency Bonds, Notes	498,712	-	497,805	-	-	907
Non-US Government Obligations	825	-	825	-	-	-
Other Obligations						
Private Placements	166,377	7,034	98,553	12,275	-	48,515
Pooled Investments	127,862	-	-	-	-	127,862
Money Market	34,250	-	-	-	-	34,250
Certificate of Deposit	101,200	-	31,628	20,428	6,023	43,121
Commercial Paper	164,216	-	14	-	151,930	12,272
Total Investments	**$ 2,146,394**	**$ 82,210**	**$ 1,455,928**	**$ 159,609**	**$ 157,953**	**$ 290,694**

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, 2014, 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, 2014 the State did not enter into any commitment agreements with any investment managers for future funding of various asset classes.

OPEB Trust Fund (OPEB Trust)

Investment Policy

The State Board of Pension Trustees is responsible for the management and investment of the funds in the OPEB Trust. The Board authorized its Investment Committee to select the investment managers of the OPEB Trust following the established investment guidelines for the Delaware Public Employees' Retirement System (DPERS) until a separate investment policy is adopted for the OPEB Trust. The System follows the prudent person standard, which requires fiduciaries to discharge their duties solely in the interests of participants and their beneficiaries with such care, skill, prudence, and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise with similar character and with similar aims. The OPEB Trust investment objectives and policies currently include indexed exposure to approximate the System's policy benchmark. The Investment Committee regularly reviews the OPEB investment performance, and considers investment vehicles which strike a balance between risk and return while being mindful of the government's time horizon for the OPEB investments. Of the OPEB trust's investment balance of $242.5 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 $96.5 million with a AA credit rating. The foreign equities type of mutual fund represents $49.7 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 $96.3 million is in an index fund. The OPEB Trust also has $46.2 million held in cash and pooled investments with the State Treasurer's Office.

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, 2014, 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 custodian is authorized to lend securities within the borrower limits and guidelines established by the System. The System lends fixed income, domestic equity, and international equity securities to approved broker/dealers. Collateral for securities loaned equals 102 percent of fair market value for domestic securities and 105 percent for international securities.

The only types of collateral received from borrowers are obligations issued by the U.S. Government. All rights of ownership to securities pledged as collateral remain with the borrower except in the event of default. The System does not have the ability to pledge or sell collateral securities without a borrower default. As of June 30, 2014, there were no violations of legal or contractual provisions. The System has not experienced any losses resulting from the default of a borrower or lending agent during the year ended June 30, 2014.

At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodian requires it to indemnify the System if the borrowers fail to return the securities or fail to pay the System for income distributions by the securities' issuers while the securities are on loan. The System manages its market risk by recording investments at fair value daily and maintaining the value of the collateral held by the System in excess of the value of the securities loaned. As of June 30, 2014, the fair value of securities on loan was $81.7 million. The associated collateral was $87.0 million.

All open security loans can be terminated on demand by either the System or borrower. The collateral is valued at fair value obtained from independent pricing services.

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, 2014. 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 $784.9 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	$ 21,259	$ -	$ 5,112	$ 1,163	$ 14,984
Bank Loans	16,940	-	10,685	6,255	-
Cash equivalents	484,088	484,088	-	-	-
Commercial Mortgage-Backed	6,097	-	-	-	6,097
Corporate Bonds	385,812	5,094	109,552	126,529	144,637
Corporate Convertible Bonds	784,948	31,966	541,186	129,510	82,286
Government Agencies	17,641	-	17,641	-	-
Government Bonds	54,839	11,910	23,930	6,929	12,070
Municipal/Provincial Bonds	16,038	564	10,991	-	4,483
Pooled Investments	1,299,430	-	293,398	1,006,032	-
Total	$ 3,087,092	$ 533,622	$ 1,012,495	$ 1,276,418	$ 264,557

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, 2014, the System's fixed income investments and cash equivalents had the following credit risk characteristics as indicated in the following schedule (expressed in thousands):

Moody's Ratings or Comparable	Percent of Total Fund	Market Value
AAA to A	17.7%	$ 1,636,430
BBB to B	8.7%	807,422
CCC to C	0.5%	42,577
Not Rated	6.5%	600,663
Total:	33.4%	$ 3,087,092

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, 2014, the $585.4 million carrying amount of the System's cash and cash equivalents was comprised of $574.2 million of short-term investments and $10.3 million in deposits. Of the $10.3 million in deposits, $5.9 million was subject to custodial credit risk because it was uninsured and uncollaterized. The remaining $4.4 million was held as pooled deposits by the State Treasurer's Office.

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. The System's investments are not exposed to custodial credit risk as they are held by the System's custodian in the name of the System or its nominee.

Investment Concentration Risk

As of June 30, 2014, 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 $28.5 million in management fees to the alternative investment funds and partnerships for the fiscal year ended June 30, 2014. These fees are netted against investment income.

Investment Commitments

The System has commitments to invest up to an additional $739.4 million in venture capital limited partnerships in varying amounts as of June 30, 2014, 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, 2014. The listing includes $6.1 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	$ 33,658	$ 19,861	$ 13,797	$ -
Brazilian Real	13,206	8,180	5,026	-
British Pound Sterling	116,054	89,122	26,855	77
Canadian Dollar	68,344	16,655	51,519	170
Danish Krone	9,645	9,645	-	-
Euro	283,881	78,842	200,081	4,958
Hong Kong Dollar	86,950	62,736	24,028	186
Indonesian Rupiah	21,418	18,327	3,091	-
Japanese Yen	100,297	38,447	61,545	305
Malaysian Ringgit	4,389	4,389	-	-
Mexican Peso	17,770	2,813	14,837	120
New Zealand Dollar	20,600	-	20,600	-
Nigerian Naira	3,405	3,405	-	-
Norwegian Krone	13,369	-	13,369	-
Philippine Peso	18,363	18,363	-	-
Singapore Dollar	14,999	7,867	7,108	24
South African Rand	6,747	6,747	-	-
South Korean Won	8,301	3,093	5,208	-
Swedish Krona	21,833	18,628	3,165	40
Swiss Franc	43,664	40,982	2,674	8
Thai Baht	3,403	3,403	-	-
Turkish Lira	10,507	10,507	-	-
United Arab Emirates Dirham	4,745	4,745	-	-
Total Foreign Currencies	925,548	466,757	452,903	5,888
Foreign Issued Investments Denominated in U.S. Dollars	386,154	149,384	236,770	-
Pooled International Investments Denominated in U.S. Dollars	598,014	598,014	-	-
Total	$ 1,909,716	$ 1,214,155	$ 689,673	$ 5,888

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. The Board adopted a formal written policy on the use of derivatives which is reviewed periodically and this policy, as amended, was incorporated in the formalized investment policy adopted by the Board. 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, 2014 were not material to the system.

Risk and Uncertainty

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

Discretely Presented Component Units

Delaware State Housing Authority (DSHA)

As of June 30, 2014, the carrying value and bank balances of DSHA's deposits were $38.7 million and $39.8 million, respectively, all of which are insured by the FDIC.

Investment Policies

DSHA has an investment policy that encompasses all moneys related to the issuance of bonds, as well as all funds otherwise held by DSHA. DSHA seeks first and foremost to ensure safety of principal, and secondly, to attain the highest possible return available given the risk constraints. DSHA is allowed to invest in certain qualified investments as defined by amended Subchapter II, Section 4013, Chapter 40, Title 31, of the Delaware Code and DSHA's formal investment policy.

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	$ 12,446	$ 5,480	$ 6,814	$ -	$ 152	$ -
US Treasury Strips	197	8	-	-	189	-
U.S. Treasury Bonds	26	-	-	-	26	-
U.S. Agencies	18,353	3,382	14,971	-	-	-
Commercial Paper	6,987	6,987	-	-	-	-
Corporate Notes	14,313	1,254	13,059	-	-	-
Investment Agreements	733	-	-	-	238	495
Money Market Savings Accounts	6,680	6,680	-	-	-	-
Bank Money Market Accounts	41,654	41,654	-	-	-	-
State of Delaware Investment Pool	11,498	11,498	-	-	-	-
Total Investments	112,887	76,943	34,844	-	605	495
Securitized Mortgage Loans	469,325	-	-	-	-	469,325
Total Investments & Securitized Mortgage Loans	$ 582,212	$ 76,943	$ 34,844	$ -	$ 605	$ 469,820

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. As of June 30, 2014, DSHA's investments were rated as follows:

Ratings (S & P)
(Expressed in Thousands)

Investment Type	AAA	AA+	AA	AA-	A1+	A1	U.S. Government Guaranteed
U.S. Treasury Notes	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,446
U.S. Treasury Strips	-	-	-	-	-	-	197
U.S. Treasury Bonds	-	-	-	-	-	-	26
U.S. Agencies	-	18,353	-	-	-	-	-
Corporate Notes	764	962	6,113	6,474	-	-	-
Commercial Paper	-	-	-	-	2,246	4,740	-
Securitized Mortgage Loans	-	-	-	-	-	-	469,325
Total	$ 764	$ 19,315	$ 6,113	$ 6,474	$ 2,246	$ 4,740	$ 481,994

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 inflows of resources.

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable at June 30, 2014. 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/Govermental Funds
(Expressed in Thousands)

	General Fund	Federal Funds	Local School District Funds	Total Receivables
Receivables:				
Taxes	$ 208,487	$ -	$ 38,189	$ 246,676
Accounts	318,711	98,873	470	418,054
Loans and Notes	50,146	281,503	-	331,649
Intergovernmental	-	142,612	-	142,612
Total Receivables	577,344	522,988	38,659	1,138,991
Allowance for Doubtful Accounts	(365,165)	(90,574)	(189)	(455,928)
Total Receivables, Net	$ 212,179	$ 432,414	$ 38,470	$ 683,063
Amounts not Scheduled for Collection During the Subsequent Year	$ 79,847	$ 262,947	$ 26,024	$ 368,818

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

	Unemployment	Lottery	DelDOT	Total Receivables
Receivables:				
Taxes	$ 52,784	$ -	$ -	$ 52,784
Accounts	27,752	13,203	18,190	59,145
Interest	-	-	455	455
Intergovernmental	-	-	39,121	39,121
Total Receivables	80,536	13,203	57,766	151,505
Allowance for Doubtful Accounts	(41,920)	(785)	-	(42,705)
Total Receivables, Net	$ 38,616	$ 12,418	$ 57,766	$ 108,800
Amounts not Scheduled for Collection During the Subsequent Year	$ -	$ -	$ -	$ -

Discretely Presented Component Units

Delaware State Housing Authority (DSHA)

Total receivables as of June 30, 2014 are as follows:

(Expressed in Thousands)

Receivables:	
Mortgage Loans	$ 261,026
Accrued Interest	53,072
Other Receivables	675
Grants Receivable	474
Total Receivables	315,247
Allowance for Doubtful Accounts	(1,182)
Total Receivables, Net	$ 314,065
Amounts not Scheduled for Collection During the Subsequent Year	$ 294,716

Mortgage loans receivable which total $261.0 million consist of single family and multi-family loans and are collateralized by first, second or third mortgages on the properties and in limited instances are guaranteed by corporate sponsors. Interest rates on the loans vary from 4.5% to 11.5% and loan maturities are between one and forty years depending on the type of mortgage loan issued.

NOTE 4 INTERFUND BALANCES AND TRANSFERS

(a) Due To/From to Other Funds

Receivables reported as “due from other funds” and the related payables reported as “due to other funds” represent amounts owed to State organizations by other organizations within the State primary government. Amounts receivable from or payable to other levels of government are reported as intergovernmental receivables or payables and are expected to be repaid within one year from the date of these financial statements. The composition of due from/due to balances at June 30, 2014, expressed in thousands, is as follows:

Receivable Fund	Payable Fund	Amount
Governmental Funds		
General	Federal	$ 16,768
Primary Government		
General	Unemployment	15,000
Unemployment	General	1,242
Lottery	General	1,014

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

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

(b) Transfers In From/Out to Other Funds

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

A schedule of transfers in and transfers out for the year ended June 30, 2014 is presented below (expressed in thousands):

	Transfers In					
	General	Federal	Local School District	Unemployment	DelDOT	Total
Transfers Out						
General	$ -	$ 2,910	$ 23,712	$ 1,706	$ 48,467	$ 76,795
Federal		-	39,077	-	-	39,077
Local School District	114,827	-	-	-	-	114,827
Capital Projects	788	-	-	-	-	788
Lottery	256,436	-	-	-	-	256,436
DelDOT	8,743	-	-	-	-	8,743
Total	$ 380,794	$ 2,910	$ 62,789	$ 1,706	$ 48,467	$ 496,666

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 March 6, 2014, the State issued $225.0 million of general obligation bonds maturing between March 1, 2015 and March 1, 2034. The bonds bear coupon rates of between 3% and 5% and yield between .14% and 3.61%. Proceeds were used to fund various capital projects as authorized by the General Assembly

Bonds issued and outstanding totaled $1,825.3 million at June 30, 2014. Of this amount, $538.3 million is supported by property taxes collected by the local school districts. During fiscal year 2014, the local school district funds transferred $65.8 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, 2014. Interest rates and maturities of the outstanding general obligation bonds are detailed as follows:

General Obligation Bonds - Governmental Activities

(Expressed in Thousands)

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding at June 30, 2014
221	GO 2014A	3.00% - 5.00%	2034	$ 225,000
220	GO 2013B	2.00% - 5.00%	2033	213,155
219	GO 2013A3	2.00% - 5.00%	2026	35,940
218	GO 2013A2	4.00% - 5.00%	2025	40,210
217	GO 2013A1	2.00% - 5.00%	2027	35,180
216	GO 2011A2	2.00%-5.00%	2032	155,075
215	GO 2011A1	2.00%-5.00%	2032	83,930
214	GO 2010D	4.55%	2030	59,580
213	GO 2010C	3.10%-4.60%	2031	115,775
212	GO 2010B2	5.00%	2024	80,665
211	GO 2010B1	2.00%-4.00%	2025	23,055
210	GO 2010A2	2.00%-3.00%	2019	20,125
209	GO 2010A1	1.50%-5.00%	2025	73,895
208	GO 2009D	3.70%-5.30%	2030	179,315
207	GO 2009C2	2.00%-3.00%	2025	31,915
206	GO 2009C1	3.00%-5.00%	2028	229,495
205	GO 2009B	4.75%-5.00%	2026	64,300
204	GO 2009A2	4.75%-5.00%	2017	5,275
203	GO 2009A1	4.75%-5.00%	2029	49,925
202	GO 2008B	4.75%-5.00%	2016	24,770
201	GO 2008A	3.00%-5.00%	2016	2,550
200	GO 2007A	4.00%-5.00%	2027	13,925
199	GO 2006C	0.25%	2023	1,433
198	GO 2006B	4.00%-5.50%	2027	11,180
197	GO 2006A	3.75%-4.50%	2014	2,440
195	GO 2005C	5%	2023	45,335
192	QZAB 2004B	0%	2021	224
190	QZAB 2003D	0%	2019	908
186	QZAB 2002B	0%	2017	760
		Total, gross		1,825,335
		Plus: unamortized bond premium		174,557
		Total general obligation bonds		$ 1,999,892

General Obligation Bonds - Business-type Activities

(Expressed in Thousands)

194	GO 2005B	5%	2015	$103

The following table sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2014:

Total General Obligation Bonds - Governmental Activities
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2015	$ 167,540	$ 78,832	$ 246,372
2016	161,530	71,255	232,785
2017	156,355	63,679	220,034
2018	144,135	56,174	200,309
2019	126,563	50,273	176,836
2020-2024	526,017	175,949	701,966
2025-2029	368,385	74,882	443,267
2030-2034	174,810	12,174	186,984
Total	$ 1,825,335	$ 583,218	$ 2,408,553

Total General Obligation Bonds - Business-type Activities
(Expressed in Thousands)

2015	$ 103	$ 4	$ 107

Changes in general obligation bonded debt during the year ended June 30, 2014 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, 2014, a total of $280.6 million of defeased bonds were outstanding.

NOTE 6 REVENUE BONDS

Revenue Bonds

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

Primary Government

In August, 2011, pursuant to the Delaware Energy Act, 29 Del. C. §8059, the Sustainable Energy Utility, Inc. (the “SEU”), a Delaware nonprofit corporation created by and for the benefit of the

State issued $67.4 million of its Sustainable Energy Utility, Inc. Energy Efficiency Revenue Bonds, Series 2011 (the "SEU Bonds"). Of the total amount, $56.2 million of the SEU Bonds were issued to finance energy conservation measures for multiple State organizations and the remaining amount of $11.2 million was issued on behalf of Delaware State University. Under separate Installment Payment Agreements, each organization 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 organization 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. The bonds are not direct obligations of the State. No funds appropriated to any organization for any purpose are available to pay the Installment Payments of any other organization or Delaware State University.

The final maturity of the SEU bonds is September 15, 2034. As of June 30, 2014, $10.3 million of the SEU Bonds issued to finance projects at State agencies was unspent and held by PNC Bank.

Sustainable Energy Utility Revenue Bonds
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2015	$ 1,610	$ 2,509	$ 4,119
2016	3,045	2,439	5,484
2017	2,915	2,324	5,239
2018	3,055	2,179	5,234
2019	1,855	2,067	3,922
2020-2024	10,640	8,898	19,538
2025-2029	13,275	6,097	19,372
2030-2034	15,620	2,546	18,166
2035	2,520	63	2,583
Total	$ 54,535	$ 29,122	$ 83,657

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, 2014, the amount of defeased debt outstanding amounted to $297.5 million.

The Authority has a total of $235.6 million in authorized but unissued revenue bonds at June 30, 2014. Bonds outstanding at June 30, 2014 amounted to $939.1 million and are presented as follows:

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding At June 30, 2014
Transportation System Senior Revenue Bonds - Series			
2003	5.0%	2023	$ 18,090
2004	4.0% - 5.0%	2024	9,620
2005	4.25% - 5.0%	2025	15,450
2006	3.5% - 5.0%	2026	44,620
2007	4.0% - 5.0%	2021	56,095
2008	4.0% - 5.0%	2028	64,400
2008	4.0% - 5.0%	2029	101,995
2009	5.00%	2029	96,250
2010	4.0% - 5.0%	2019	36,960
2010	3.95% - 5.80%	2030	72,120
2012	3.0% - 5.0%	2024	220,625
2014	2.25% - 5.0%	2024	108,760
Transportation System Grant Anticipation Bonds			
2010 Series	3.0% - 5.0%	2025	94,070
	Total, Gross		939,055
	Less: Current Portion of Debt Outstanding		77,655
	Long-term Portion of Debt Outstanding		$ 861,400

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

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2015	$ 77,655	$ 41,467	$ 119,122
2016	72,580	39,768	112,348
2017	70,595	36,317	106,912
2018	69,880	32,895	102,775
2019	73,945	29,336	103,281
2020-2024	351,360	93,874	445,234
2025-2029	215,830	16,161	231,991
2030-2033	7,210	-	7,210
Total	$ 939,055	$ 289,818	$ 1,228,873

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, 2014 for the trust funds, which is the segment of DelDOT that supports the revenue bonds, is presented below and on the following page:

Condensed Statement of Net Position
(Expressed in Thousands)

Assets:		
Current Assets	$	208,572
Capital Assets		1,383,309
Other Assets		86,180
Total Assets		1,678,061
Deferred Outflows of Resources		22,823
Total Assets and Deferred Outflows	$	1,700,884
Liabilities:		
Current Liabilities	$	132,392
Noncurrent Liabilities		920,315
Total Liabilities		1,052,707
Deferred Inflows of Resources		19,574
Net Position:		
Net Investment in Capital Assets		378,412
Unrestricted		93,605
Restricted		156,586
Total Net Position		628,603
Total Liabilities, Deferred Inflows and Net Position	$	1,700,884

Condensed Statements of Revenues Expenses and Changes in Net Position

(Expressed in Thousands)

Operating Revenues (Pledged Against Bonds)	$ 399,666
Other Operating Revenues	60,311
Depreciation Expense	(155)
Other Operating Expenses	(173,216)
Operating Income	$ 286,606
Nonoperating Revenues (Expenses):	
Investment Income	$ 2,257
Other Investment Income	10,312
Interest Expense	(38,529)
Transfer to Other Agencies	(3,743)
Transfer from General Fund	43,467
Transfer to DTC	(83,878)
Transfer to DELDOT	(112,792)
Change in Net Position	103,700
Beginning Net Position, as restated*	524,903
Ending Net Position	$ 628,603

* Restated for the implementation of GASB 65, which resulted in expensing bond issuance costs previously recorded as deferred bond issuance costs.

Condensed Statements of Cash Flows

(Expressed in Thousands)

Net Cash Provided by (Used In):	
Operating Activities	$ 284,167
Noncapital Financing Activities	(156,947)
Capital and Related Financing Activities	(139,809)
Investing Activities	6,731
Net Decrease	(5,858)
Beginning Cash and Cash Equivalents	49,153
Ending Cash and Cash Equivalents	$ 43,295

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

The total principal and interest remaining to be paid on the revenue bonds as of June 30, 2014 was $1,228.9 million. Principal and interest paid on the revenue bonds for the year ended June 30, 2014 was $122.3 million. Total pledged revenues for the year ended June 30, 2014 were $401.9 million.

Discretely Presented Component Units

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

Delaware State Housing Authority (DSHA)

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

The revenue bonds outstanding have been issued to provide financing for mortgage loans. The bonds are secured by the mortgage loans made or purchased under the applicable resolutions, the revenues, prepayments and foreclosures proceeds received related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 0.95% to 7.75% with maturities of such bonds up through January 1, 2049.

On December 31, 2013, the Authority called all remaining bonds of the Single Family Mortgage Revenue Bonds 2004 Series A issue and sold all remaining mortgage backed securities associated with the bond issue.

Outstanding bonds at June 30, 2014 amounted to $483.7 million. Future debt service requirements for DSHA's bonds are shown on the following table:

Delaware State Housing Authority Revenue Bonds
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2015	$ 11,122	$ 18,448	$ 29,570
2016	10,495	18,069	28,564
2017	10,830	17,671	28,501
2018	11,000	17,233	28,233
2019	11,295	16,750	28,045
2020-2024	63,748	75,885	139,633
2025-2029	79,009	61,961	140,970
2030-2034	65,548	44,646	110,194
2035-2039	75,460	28,551	104,011
2040-2044	127,247	25,789	153,036
2045-2049	17,971	1,439	19,410
Total	$ 483,725	$ 326,442	$ 810,167

Delaware State University (DSU)

Revenue bonds payable at June 30, 2014 are as follows:

Revenue Bonds Payable
(Expressed in Thousands)

Revenue Bonds	$	3,130
Revenue Refunding Bonds		47,836
Energy Efficiency Revenue Bonds		11,930
Revenue Refunding Bonds Series 2012		31,148
Student Housing Foundation Bonds		14,873
Total Revenue Bonds Outstanding as of June 30, 2014	$	108,917

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

On March 1, 2012, DSU issued revenue refunding bonds in the amount of $32.1 million (par value) through the DEDA which were in part used to refund certain maturities of Series 1999 bonds. The issuance of Series 2012 bonds and refunding resulted in a $2.7 million reduction in Series 1999 bond obligations. As of June 30, 2014, $3.1 million remained outstanding on the 1999 Revenue Bonds.

On December 20, 2007, DSU issued revenue refunding bonds in the amount of $47.6 million (par value) through the DEDA. The bonds are interest only through October 1, 2018; due on October 1, 2036; and are secured by un-appropriated gross revenues of DSU. DSU 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. As of June 30, 2014, $47.8 million remained outstanding on the 2007 revenue bonds.

DSU 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 DSU, 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 DSU. 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, 2014, $11.9 million remained outstanding on the 2011 energy efficiency bonds.

On March 1, 2012, DSU issued revenue refunding bonds in the amount of $32.1 million (par value) through the DEDA. The bonds are due October 1, 2036 and are secured by a pledge of certain un-appropriated revenues of DSU. 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, 2014, $31.1 million remained outstanding on the 2012 revenue bonds.

Remaining maturities and interest due relating to DSU's revenue bonds at June 30, 2014 are as follows

Delaware State University Revenue Bonds
(Expressed in thousands)

Fiscal Year	Principal	Interest	Total
2015	$ 2,030	$ 4,054	$ 6,084
2016	2,100	3,981	6,081
2017	2,230	3,886	6,116
2018	2,370	3,778	6,148
2019	2,630	3,699	6,329
2020 - 2024	15,190	16,749	31,939
2025 - 2029	18,730	13,153	31,883
2030 - 2034	26,745	9,497	36,242
2035 - 2039	19,275	2,352	21,627
Total	91,300	$ 61,149	$ 152,449
Plus Unamortized Bond Premiums and Discount	2,744		
Total Revenue Bonds Payable	$ 94,044		

The Delaware State University Housing Foundation (Housing Foundation), a component unit of DSU refinanced its Series 2000A and 2002A 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). The liability of the Housing Foundation under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee. The first monthly interest payment on the Series 2004A Bonds began on July 1, 2004.

Maturities of long-term debt at June 30, 2014 are as follows:

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

Fiscal Year	Interest Rates	Principal	Interest	Total
2015	4.00%	$ 435	$ 736	$ 1,171
2016	4.20%	455	717	1,172
2017	4.30%	475	698	1,173
2018	4.40%	495	677	1,172
2019	4.50%	515	654	1,169
2020 - 2024	5.00%	2,980	2,854	5,834
2025 - 2029	5.00%	3,795	2,012	5,807
2030 - 2035	5.0-5.125%	5,970	960	6,930
Total, Gross		15,120	$ 9,308	$ 24,428
Less: Unamortized Bond Discount		247		
Total Bonds Payable		$ 14,873		

NOTE 7 LOANS AND NOTES PAYABLE

Primary Government

Banc of America Master Lease/Purchase

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

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

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

Red Clay Consolidated School District Agreement
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2015	$ (144)	$ 555	$ 411
2016	329	556	885
2017	406	546	952
2018	454	534	988
2019	503	520	1,023
2020-2024	3,362	2,343	5,705
2025-2029	5,076	1,746	6,822
2030-2034	7,283	870	8,153
2035	1,773	39	1,812
Total	$ 19,042	$ 7,709	$ 26,751

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

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

Delaware State Police Agreement
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2015	$ 989	$ 179	$ 1,168
2016	1009	159	1,168
2017	1030	138	1,168
2018	1051	117	1,168
2019	1073	96	1,169
2020-2023	3,929	161	4,090
Total	$ 9,081	$ 850	$ 9,931

Discretely Presented Component Units

Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2014 are shown below:

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

Transportation Trust Fund Loan	$ 17,692
City of Wilmington Port Debt Service Notes	4,971
Delaware River and Bay Authority	2,599
Total	$ 25,262

Transportation Trust Fund Loan

In November 2001, DSPC entered into a loan agreement with DelDOT. DSPC borrowed $27.5 million. The funds were used to repay the balances in full of the original Delaware River and Bay Authority Note and the Wilmington Trust Company Note, and, at a discount, the City of Wilmington Deferred Payment Note. The interest rate was 3.99% during 2014. The loan matures March 2029.

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

Transportation Trust Fund Loan
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2015	$ 923	$ 704	$ 1,627
2016	960	667	1,627
2017	999	629	1,628
2018	1039	589	1,628
2019	1081	547	1,628
2020-2024	6,090	2,049	8,139
2025-2029	6,600	725	7,325
Total	$ 17,692	$ 5,910	$ 23,602

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%.

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

Port Debt Service Note
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2015	$ 701	$ 233	$ 934
2016	742	195	937
2017	683	157	840
2018	253	136	389
2019	274	123	397
2020-2023	2,318	230	2,548
Total	$ 4,971	$ 1,074	$ 6,045

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.

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

Delaware River and Bay Authority Obligation
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2015	$ 186	$ 75	$ 261
2016	192	70	262
2017	197	64	261
2018	158	104	262
2019	166	95	261
2020-2024	977	330	1,307
2025-2027	723	61	784
Total	$ 2,599	$ 799	$ 3,398

NOTE 8 LEASE COMMITMENTS

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating $169.8 million, of which $146.5 million relates to property leases and $23.3 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 incurred. Lease payments for fiscal year 2014 were approximately $32.2 million, of which $25.7 million was for office space and $6.5 million, was for equipment. The equipment leases held by the State consists mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include $3.6 million for fleet vehicles and data processing equipment for the Office of Management and Budget, and $1.5 million for data processing equipment for the Department of Education. Significant annual real estate rentals include $6.7 million for leases for Health and Social Services facilities, $2.2 million for the Department of Services for Children, Youth and Their Families, $3.1 million for office space for the Department of Correction, and $3.2 million for the Department of Labor.

Future minimum lease commitments for operating leases as of June 30, 2014 are shown in the following table:

Lease Commitments
(Expressed in Thousands)

Fiscal Year	**Operating Leases**
2015	$ 30,741
2016	26,932
2017	24,974
2018	20,926
2019	19,178
2020-2024	40,880
2025-2029	5,446
2030-2034	738
Total	$ 169,815

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, 2014. 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. $175.9 million has been accrued for the Governmental Activities and $12.3 million in the Business-type Activities for the total compensated absences liability. The current portion of the long-term obligation for compensated absences is $13.0 million in the Governmental Activities and $1.8 million in the Business-type Activities. Approximately $151.1 million (85.9%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately $9.8 million (5.6%) and $15 million (8.5%) will be paid with Federal Funds and Local School District Funds, respectively.

The State has recorded $130.0 million relating to the accrual of the obligation for escheated (abandoned) property of which $26.0 million was recorded as the current portion.

The State has incurred obligations relating to scholarship and physician loan repayment programs, resulting in an additional long-term obligation of $3.8 million, of which $688.5 thousand 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, 2014:

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Net Pension Obligation					
(Note 15)	$ 119,088.0	$ 24,443.0	$ (23,064.0)	$ 120,467.0	$ -
Other Postemployment Benefits (Note 14)	1,682,007.7	457,077.7	(257,047.0)	1,882,038.4	-
Compensated Absences (Note 9)	172,747.0	16,800.0	(13,613.9)	175,933.1	12,956.8
Claims and Judgments					
(Notes 13 and 19)	167,225.5	41,970.1	(36,354.0)	172,841.6	38,861.8
Escheat Payable (Note 9)	95,000.0	44,900.0	(9,900.0)	130,000.0	26,000.0
Notes Payable (Note 7)	28,550.3	541.8	(969.6)	28,122.5	845.1
Pollution Remediation Obligations (Note 19)	27,557.8	1,737.7	(4,431.6)	24,863.9	8,110.2
Bonds Payable:					
General Obligation Bonds (Note 5)	1,755,030.2	225,000.0	(154,695.0)	1,825,335.2	167,540.0
Bond Issue Premium, Net of					
Accumulated Amortization	166,252.0	24,413.3	(16,107.9)	174,557.4	17,023.4
Revenue Bonds (Note 6)	56,170.0	-	(1,634.8)	54,535.2	1,610.0
Physician and Scholarship					
Programs (Note 9)	3,574.9	1,203.8	(946.5)	3,832.2	688.5
Governmental Activities Long-term Liabilities	4,273,203.4	838,087.4	(518,764.3)	4,592,526.5	273,635.8
Business-type Activities:					
Other Postemployment Benefits (Note 14)	170,874.6	45,885.3	(19,255.6)	197,504.3	$ -
Compensated Absences (Note 9)	14,227.3	237.3	(2,198.0)	12,266.6	1,787.1
Pollution Remediation Obligations (Note 19)	4,004.7	-	(493.2)	3,511.5	1,280.0
Liabilities Payable from				-	
Restricted Assets (Notes 13 and 17)	12,394.8	4,695.4	(2,403.8)	14,686.4	2,427.0
Bonds Payable:				-	
General Obligation Bonds (Note 5)	246.3	-	(142.9)	103.4	103.4
Revenue Bonds (Note 6)	1,023,505.0	108,760.0	(193,210.0)	939,055.0	77,655.0
Bond Issue Premium, Net of				-	
Accumulated Amortization	55,690.0	15,983.1	(5,933.9)	65,739.2	6,823.9
Business-type Activities Long-term Liabilities	$ 1,280,942.7	$ 175,561.1	$ (223,637.4)	$ 1,232,866.4	$ 90,076.4

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. The principal amount of bonds outstanding at June 30, 2014 for this entity amounted to $672.1 million.

NOTE 12 CAPITAL ASSETS

Capital asset activities for the fiscal year ended June 30, 2014 were as follows:

Capital Assets
(Expressed in Thousands)

Governmental Activities	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital Assets, Not Being Depreciated				
Land	$ 459,587	$ 8,857	$ (233)	$ 468,211
Easements	79,750	-	-	79,750
Construction-In-Progress	359,186	297,855	(116,996)	540,045
Total Capital Assets, Not Being Depreciated	898,523	306,712	(117,229)	1,088,006
Capital Assets, Being Depreciated				
Vehicles	81,726	8,035	(3,086)	86,675
Buildings	3,598,832	65,347	(8,140)	3,656,039
Equipment	99,498	6,080	(4,723)	100,855
Land Improvements	226,330	14,519	-	240,849
Computer Software	65,718	44,052	(2,764)	107,006
Total Capital Assets Being Depreciated	4,072,104	138,033	(18,713)	4,191,424
Less Accumulated Depreciation For:				
Vehicles	(63,219)	(5,607)	3,032	(65,794)
Buildings	(1,176,239)	(80,389)	7,704	(1,248,924)
Equipment	(72,940)	(4,794)	4,361	(73,373)
Land Improvements	(72,984)	(12,434)	-	(85,418)
Computer Software	(36,914)	(19,335)	2,761	(53,488)
Total Accumulated Depreciation	(1,422,296)	(122,559)	17,858	(1,526,997)
Total Capital Assets, Being Depreciated, Net	2,649,808	15,474	(855)	2,664,427
Governmental Activities Capital Assets, Net	$ 3,548,331	$ 322,186	$ (118,084)	$ 3,752,433

Capital Assets
(Expressed in Thousands)

Business-type Activities **DelDOT**		**Beginning Balance**		**Increases**		**Decreases**		**Ending Balance**
Capital Assets, Not Being Depreciated								
Land	$	283,876	$	4,736	$	-	$	288,612
Infrastructure		3,670,250		53,425		-		3,723,675
Other Buildings and Improvements		-		22,100		-		22,100
Construction In Progress		3,140		33,891		(2,945)		34,086
Total Capital Assets, Not Being Depreciated		3,957,266		114,152		(2,945)		4,068,473
Capital Assets, Being Depreciated								
Buildings & Improvements		109,638		9,571		(579)		118,630
Furniture & Equipment		268,900		39,520		(11,944)		296,476
Total Capital Assets, Being Depreciated		378,538		49,091		(12,523)		415,106
Less Accumulated Depreciation For:								
Buildings & Improvements		(34,367)		(6,805)		-		(41,172)
Furniture & Equipment		(146,323)		(26,437)		2,660		(170,100)
Total Accumulated Depreciation		(180,690)		(33,242)		2,660		(211,272)
Total Capital Assets, Being Depreciated, Net		197,848		15,849		(9,863)		203,834
Business-type Activities Capital Assets, Net	$	4,155,114	$	130,001	$	(12,808)	$	4,272,307

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

Depreciation Expense
(Expressed in Thousands)

Governmental Activities:		
General Government	$	26,413
Health and Children's Services		13,082
Judicial and Public Safety		14,931
Natural Resources and Environmental Control		4,836
Labor		134
Education		63,163
Total Depreciation Expense - Governmental Activities	$	122,559
Business-type Activities:		
DelDOT	$	33,242
Total Depreciation Expense - Business-type Activities	$	33,242

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, 2014, for workers' compensation, automobile accident and health-care claim liabilities is $220.0 million. The claim liabilities relating to health-care totaling $48.8 million have been recorded as accrued liabilities in governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $171.2 million has been recorded in governmental activities as claims and judgments. The current portion of these claims totals $38.9 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2014 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2014 and 2013 were as follows:

(Expressed in Thousands)

Fiscal Year	**Beginning Balance July 1**	**Current Year Claims and Changes in Estimates**	**Actual Claim Payments**	**Ending Balance June 30**
2013	$ 198,895	$ 640,376	$ (631,434)	$ 207,837
2014	$ 207,837	$ 703,221	$ (691,064)	$ 219,994

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 $12.0 million of claim liabilities as Insurance Loss Reserve. Of this amount, $2.4 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, 2014:

Retirees and Beneficiaries Receiving Benefits	20,411
Terminated Plan Members Entitled to But Not Yet Receiving the Benefits	1,942
Active Eligible Plan Members	36,562
Total	58,915

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, 2014, 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 typically from the General Fund. 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 healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for healthcare are recorded in the OPEB Trust. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the OPEB Trust and is responsible for the financial management of the OPEB Trust.

Contributions

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percent of covered payroll, with an additional amount to prefund benefits, which is not actuarially determined. For fiscal year 2014, the State contribution in relation to the annual required contribution (ARC) totaled $202.6 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 $8.1 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 2014, 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, 2013	$ 1,852.9	$ 1,682.0	$ 170.9
Annual Required Contribution	424.1	385.2	38.9
Interest on Net OPEB Obligation	78.9	71.9	7.0
Adjustment to Annual Required Contribution	(72.5)	(65.2)	(7.3)
Subtotal	2,283.4	2,073.9	209.5
Employer Contributions	(203.9)	(191.9)	(12.0)
Net OPEB Obligation at June 30, 2014	$ 2,079.5	$ 1,882.0	$ 197.5

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the OPEB Trust for the fiscal years 2014, 2013, and 2012 are as follows (dollar amounts in millions):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	$ 413.6	50%	$ 1,988.5
2013	397.8	52%	1,777.5
2012	490.5	38%	1,581.5

Funded Status and Funding Progress

As of June 30, 2014, the plan was 4.9% funded. The actuarial accrued liability for benefits was $5,946.0 million, and the actuarial value of assets was $290.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of $5,656.0 million for the primary government. The covered payroll (annual payroll of active employees covered by the plan) was $2,038.0 million and the ratio of the UAAL to the covered payroll was 277%.

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.

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, 2014 actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at fair value. The actuarial assumptions included a 4.25% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the State's own investments calculated based on the funded level of the plan at the valuation date, and a medical inflation 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 access to dental and vision coverage, but must pay the full premium. Life insurance is provided to retirees. Retirees under age 70 receive $6,000 in coverage. Once the participant reaches age 70, the coverage drops to $5,000. DTC must contribute $0.23 per month per $1,000 of coverage for each employee.

The numbers of participants are 810 active employees and 193 retirees as of June 30, 2014, the effective date of the other post-employment benefit (OPEB) actuarial valuation report.

Funding Policy

DTC funds the DTC OPEB Trust on a pay-as-you-go basis with additional funding on an ad hoc basis. Funds are recorded in the DTC OPEB Trust for the payment of retiree healthcare claims and administrative and investment expenses. Administrative costs are financed through investment earnings. Employer contributions and retiree contributions for healthcare are recorded in the DTC OPEB Trust. The funds available are invested under DTC's management, which acts as the Trustee and is responsible for the financial management of the DTC OPEB Trust. The cash basis costs associated with these benefits was $1.3 million for the fiscal year ended June 30, 2014.

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	$ 17,371
Interest on Net OPEB Obligation	2,992
Adjustment to Annual Required Contribution	(3,615)
Annual OPEB Cost (Expense)	16,748
Contributions Made	(1,288)
Increase in Net OPEB Obligation	15,460
Net OPEB Obligation - Beginning of Year	75,498
Net OPEB Obligation - End of Year	$ 90,958

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):

Ended June 30	OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
2014	$ 16,748	7.69%	$ 90,958
2013	15,671	7.62%	75,498
2012	17,074	6.84%	61,021

Funded Status and Funding Progress

As of July 1, 2013, the most recent actuarial valuation date, the Plan was 1.4% funded. The actuarial accrued liability was $135.2 million and the actuarial value of the assets was $1.9 million, resulting in an unfunded actuarial accrued liability of $133.3 million. The covered payroll (annual payroll of active employees covered by the plan) was $38.5 million and the ratio of the UAAL to the covered payroll was 346.0%.

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, 2013 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, 3.0% payroll growth rate, a 2.5% inflation rate, and a healthcare cost trend rate of 8.0% reduced by decrements to 5.9% after 10 years. The ultimate healthcare cost trend rate will remain constant at 4.2% after 2098. The unfunded liability is being amortized as a level percentage of payrolls over a 30-year closed amortization period.

NOTE 15 PENSIONS

Pension Plans

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

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

- Diamond State Port Corporation Pension Plan; and
- Closed State Police Pension Plan.

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

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

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

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

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

Non-DPERS Fund Descriptions and Contributions

County & Municipal Police and Firefighters' COLA Fund

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

Post-Retirement Increase Fund (PRI)

The State passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to members retired under the State Employees' Plan, the New State Police Plan, and the Judiciary Plans (Closed and Revised) beginning in fiscal year 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI fund managed by the Board. The actuary uses the current actuarial assumptions, methods, and population data to calculate the estimated additional liability resulting from granted ad hoc 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, 2014, $27.5 million was transferred to the appropriate plans in DPERS.

As of June 30, 2014 recently granted post-retirement increases have outstanding liabilities totaling $132.5 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**
2015	$ 33,493
2016	39,808
2017	31,136
2018	10,945
2019	11,300
2020	5,834
Total	$ 132,516

The Board adopts actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal year 2014 was 1.51% of covered payroll. Funding for fiscal year 2015 will be 1.66%.

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, 2014, 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 multiple employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

There are two tiers within this plan:

1) Employees hired prior to January 1, 2012 (Pre-2012)
2) Employees hired on or after January 1, 2012 (Post-2011)

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 periods of twelve consecutive months of compensation.

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

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

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

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

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

Burial Benefit: $7,000 per member.

Special Fund

Plan Description and Eligibility:

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

Service Benefits: Defined by special legislation.

Vesting: Defined by special legislation.

Retirement: Defined by special legislation.

Disability Benefits: Defined by special legislation.

Survivor Benefits: Same as State Employees' Plan.

Contributions: Employer contributions are actuarially determined and fully funded in advance by the General Assembly.
Burial Benefit: $7,000 per member.

New State Police Pension Plan

Plan Description and Eligibility:

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

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

Vesting: 10 years of credited service at age 62.

Retirement: Age 62 with 10 years of credited service; age plus credited service (but not less than 10 years) equals 75; has 10 years of service and is retired due to age; 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, total disability subject to a minimum 50% of final average monthly compensation plus 5% for each dependent not to exceed 20% for all dependents. Partial disability to a minimum of 30% of final average monthly compensation.

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

Contributions: Employer - determined by Board of Pension Trustees.
Member - 7% of compensation.

Burial Benefit: $7,000 per member.

Judiciary Pension Plans (Closed and Revised)

Plan Description and Eligibility:

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

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

Service Benefits:

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

Vesting: 12 years of credited service.

Retirement:

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

Disability Benefits: Same as service benefits.

Survivor Benefits:

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

Closed State Police Pension Plan

Plan Description and Eligibility:

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

Survivor Benefits: If employee is active or is receiving a service or service-related disability pension, the eligible survivor receives 75% of pension; if employee is receiving a non-service related disability pension; eligible survivor receives 50% of pension.

Contributions: Employer - funded on a pay-as-you-go basis.

Burial Benefit: $7,000 per member.

The following plans are managed by DPERS and included in the fiduciary funds statement but are not obligations of the State:

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.

County & Municipal Police and Firefighters' Pension Plans

Plan Description and Eligibility:

County & Municipal Police and Firefighters' Pension Plan is a cost-sharing multiple-employer defined benefit plan 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, total disability subject to a minimum 50% of final average monthly compensation plus 5% for each dependent not to exceed 20% for all dependents. Partial disability to a minimum of 30% of final average monthly compensation.

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. If the member is killed in the line of duty, the eligible survivor receives 75% of the member's compensation.

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.

Historical Trend Information

Historical trend information for the current year and for the most recent ten years, where available 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.

Funded Status and Progress

Employer contributions, with the exception of the Closed State Police Pension Plan, are actuarially determined and calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. Member contribution rates are established by each plan. The State is responsible to contribute to the following Plans: State Employees, Special, New State Police, Judiciary and Closed State Police Plans. Contributions are funded by the governmental and business type funds allocated to the salaries charged to each fund. During fiscal year ending June 30, 2014, the State contributed $211.3 million to these Plans based on the actuarial determined contribution amount of $213.9 million or 98.8% of the actuarial determined contribution. The covered payroll of the Plans was $1,905.8 million for the fiscal year ended June 30, 2014 and the average contribution rates for these Plans was11.1%.

The funded status of the Plans as of June 30, 2014, the most recent valuation date, is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL AAL AAL (UAAL) (Excess of Assets over Liabilities (2) - ((1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL/ (Excess) as % of Covered payroll (3) / (5)
State Employees	6/30/2014	$ 8,389,765	$ 8,757,980	$ 368,215	95.8%	$ 1,840,521	20.0%
Special	6/30/2014	304	200	(104)	152.0%	N/A	N/A
Closed State Police +	6/30/2014	2,002	369,934	367,932	0.5%	N/A	N/A
New State Police	6/30/2014	374,789	390,044	15,255	96.1%	$ 55,067	27.7%
Judiciary	6/30/2014	73,325	71,968	(1,357)	101.9%	$ 10,244	-13.3%

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

N/A - Not Applicable

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	174,863	N/A	24,443	10,500	2,839
Actuarial Valuation Date	6/30/2014	6/30/2014	6/30/2014	6/30/2014	6/30/2014
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss	Level Dollar Open	Level Dollar Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	20 years (1)	10 years	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

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'	6/30/2014	$ 174,863	$ 174,863	100.00%	$ -
	6/30/2013	160,651	160,651	100.00%	-
	6/30/2012	147,464	147,464	100.00%	-
	6/30/2014	$ 2,839	$ 2,839	100.00%	$ -
Judiciary	6/30/2013	2,762	2,762	100.00%	-
	6/30/2012	2,674	2,674	100.00%	-
	6/30/2014	$ 10,500	$ 10,500	100.00%	$ -
New State Police	6/30/2013	9,292	9,292	100.00%	-
	6/30/2012	8,309	8,309	100.00%	-
	6/30/2014	$ 23,064	$ 24,443	94.36%	$ 120,467
Closed State Police	6/30/2013	23,064	24,155	95.48%	119,088
	6/30/2012	23,064	23,293	99.02%	117,997

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, 2014, 2013, and 2012 are as follows:

Net Pension Obligation (NPO)
(Expressed in Thousands)

	Fiscal Year Ended June 30, 2014	Fiscal Year Ended June 30, 2013	Fiscal Year Ended June 30, 2012
Annual Required Contribution	$ 26,169	$ 25,696	$ 24,678
Interest on Net Pension Obligation	8,932	8,850	8,833
Adjustment to Annual Required Contribution	(10,658)	(10,391)	(10,218)
Annual Pension Cost	24,443	24,155	23,293
Less Contributions Made	(23,064)	(23,064)	(23,064)
Increase in Net Pension Obligation	1,379	1,091	229
Net Pension Obligation, Beginning of Year	119,088	117,997	117,768
Net Pension Obligation, End of Year	$ 120,467	$ $ 119,088	$ $ 117,997

Delaware Transportation Authority

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

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

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

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

Plan	**DTC Pension Plan**	**Contributory Pension Plan**
Contribution Rates:		
Employer	8.70%*	5.00%
Participants	3.00%	5.00%
Annual Pension Cost	$ 1,156,145	$ 853,917
Contributions Made	$ 1,156,072	$ 1,249,884
Actuarial Valuation Date	07/01/13	01/01/14
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Remaining Amortization Period	20	15
Asset Valuation Method	Five-Year Smoothed Market	Five-Year Smoothed Market
Actuarial Assumptions:		
Investment Rate of Return	7.50%	7.00%
Projected Salary Increases	2.50%	4.00%

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

*Actuarially determined

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

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

	DTC Pension Plan	Contributory Pension Plan
For the Year Ended	**6/30/2014**	**12/31/2013**
Annual Required Contribution (ARC)	$ 1,156,145	$ 773,130
Interest on Net Pension Obligation (NPO)	-	(239,466)
Actuarial Adjustment	-	320,253
Annual Pension Cost (APC)	1,156,145	853,917
Less: Actual Contributions	(1,156,072)	(1,249,884)
Increase (Decrease) in NPO	73	(395,967)
Net Pension Obligation (Asset), Beginning of the Year	108,847	(3,420,938)
Net Pension Obligation (Asset), End of the Year	$ 108,920	$ (3,816,905)

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

	Plan Year Ended	Contribution Made	Annual Pension Cost (APC)	Percent Of APC Contributed	Net Pension Asset
DTC Pension Plan	6/30/2014	$ 1,156,072	$ 1,156,145	99.99%	$ (108,920)
	6/30/2013	963,253	962,682	100.06%	(108,847)
	6/30/2012	996,777	996,827	99.99%	(109,418)
Contributory Pension	12/31/2013	$ 1,249,884	$ 853,917	146.37%	$ 3,816,905
	12/31/2012	1,080,068	788,421	136.99%	3,420,938
	12/31/2011	1,073,948	658,363	163.12%	3,129,291

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. For the General Fund, the amounts assigned for Education are due largely to the policies for tuition and fees of Delaware Technical and Community College (DTCC).
- **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, 2014, is as follows (expressed in thousands):

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
Nonspendable					
Federal Restrictions	$ -	$ 281,260	$ -	$ -	$ 281,260
Inventories	6,630	-	-	-	6,630
Total Nonspendable	6,630	281,260	-	-	287,890
Restricted:					
Health and Children's Services	8,039	-	-	-	8,039
Judicial and Public Safety	12,313	-	-	-	12,313
Natural Resources and Environmental Control	119,573	-	-	-	119,573
Agriculture	306	-	-	-	306
Labor	9,442	-	-	-	9,442
Education	3,632	-	289,644	123,902	417,178
Economic Development	559	-	-	-	559
Other	3,638	-	-	-	3,638
Total Restricted	157,502	-	$ 289,644	123,902	571,048
Committed					-
Health and Children's Services	17,011	-	-	-	17,011
Judicial and Public Safety	4,831	-	-	-	4,831
Natural Resources and Environmental Control	34,495	-	-	-	34,495
Agriculture	13,939	-	-	-	13,939
Labor	5,090	-	-	-	5,090
Education	8,875	-	-	-	8,875
Economic Development	82,858	-	-	-	82,858
Other	16,992	-	-	-	16,992
Total Committed	184,091	-	-	-	184,091
Assigned					
Health and Children's Services	3,526	-	-	-	3,526
Judicial and Public Safety	5,164	-	-	-	5,164
Natural Resources and Environmental Control	5,562	-	-	-	5,562
Agriculture	7,699	-	-	-	7,699
Education	50,462	-	-	-	50,462
Economic Development	122	-	-	-	122
Other	7,754	-	-	-	7,754
Total Assigned	80,289	-	-	-	80,289
Unassigned	788,727	-	-	-	788,727
Total Fund Balance	$ 1,217,239	$ 281,260	$ 289,644	$ 123,902	$ 1,912,045

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 $289.6 million at June 30, 2014.

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 game, the Mega Millions game and the Hot Lotto game. Participating lotteries are required to maintain deposits with MUSL for contingency reserves to protect MUSL from unforeseen prize liabilities. The money in this reserve fund is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board.

The amount the Lottery had on deposit with the MUSL, as of June 30, 2014 was $2.6 million. These amounts are also reported as a liability on the Lottery's statement of net position as they represent 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

The State has entered into various contractual commitments for services and for construction of various highway, capital and lottery projects. Commitments of the proprietary fund include $304.9 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 2014 are as follows: general fund $186.2 million, federal funds $67.6 million, local school funds $18.1 million and capital project funds $112.9 million.

NOTE 19 CONTINGENCIES

Various parties have made claims against the State. For those cases in which it is reasonably possible that a loss will be incurred and in which the amount of the potential judgment can be reasonably estimated, the State estimates the liability to be $6.3 million. The State recognized $1.6 million in governmental activities as claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2014. 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, 2014 would have a material effect on its financial position or the results of operations.

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

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

At June 30, 2014, the State had a total pollution remediation liability of $28.4 million.

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 $100 thousand at June 30, 2014) in the event that the annuity issuers default on their obligations.

NOTE 20 SUBSEQUENT EVENTS

On November 6, 2014, the State issued $306.9 million of its general obligation bonds maturing between July 1, 2015 and July 1, 2034. Of the $306.9 million issued as Series 2014B, $81.9 million was issued to refund higher priced bonds resulting in a net present value savings of $5.4 million, or 6.0% of the principal refunded. The Series 2014B bonds were sold to retail and institutional investors and bore coupons between 2.0% and 5.0% and yield between 0.11% and 3.14%.

The proceeds of the new money bonds, $225.0 million, will be used to provide funds to capital projects to various school facilities and other State capital projects.

State of Delaware
Comprehensive Annual Financial Report

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 the Delaware State Housing Authority and Delaware State University, both component units of the State, which are not substantially supported by tax revenues, are not included in the budget data. Reconciliation of the accrual adjustments necessary to convert budgetary basis information to GAAP basis is presented as Required Supplementary Information.

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

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

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

The budget schedules in Required Supplemental Information a) reflect the adjustments made to increase the special fund's excess of revenues over expenditures for certain revenue sources not previously recognized; b) eliminates the net activity of certain operations that are accounted for within both the special fund and also in the separate accounts of certain component units or agency funds that are not principally accounted for within the special fund; and c) presents the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

Statutory/Budgetary Presentation

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

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriations bill as of June 30, 2014, 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 2014, 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 $416.0 million budgetary general fund balance at June 30, 2014, $201.7 million is reserved for the budgetary reserve account, $194.8 million is designated as continuing and encumbered appropriations and $19.5 million is classified as undesignated fund balance. The undesignated fund balance is subjected to Legislative review and changes.

Budgetary Comparison Schedule-General and Special Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2014
(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	$ 1,172.5	$ 1,183.4	$ 1,167.9	$ (15.5)	$ -	$ -	$ -	$ -
Business Taxes	1,739.8	1,620.3	1,567.6	(52.7)	-	-	-	-
Other Taxes	176.4	174.8	175.0	0.2	-	-	-	-
License, Permits, Fines and Fees	355.5	358.2	357.8	(0.4)	-	-	-	-
Rentals and Sales	-	-	-	-	-	-	-	-
Interest Earnings	9.0	2.8	2.8	-	-	-	-	-
Lottery Sales	237.1	216.5	214.6	(1.9)				
Grants	-	-	-	-	-	-	-	-
Other Non-tax Revenue	50.3	8.7	87.0	78.3	1,069.8	1,069.8	1,094.3	24.5
Total Revenues	3,740.6	3,564.7	3,572.7	8.0	1,069.8	1,069.8	1,094.3	24.5
Expenditures								
Legislative	15.7	19.1	14.4	4.7	-	-	-	-
Judicial	94.1	96.0	93.8	2.2	11.8	11.8	8.6	3.2
Executive	139.8	184.8	133.5	51.3	102.7	102.7	43.0	59.7
Department of Technology & Information	38.6	39.1	38.5	0.6	30.5	30.5	26.6	3.9
Other Elective Offices	162.4	185.1	185.2	(0.1)	106.3	106.3	91.5	14.8
Legal	54.4	55.8	56.0	(0.2)	12.2	12.2	5.7	6.5
Department of State	24.8	25.3	25.0	0.3	52.1	52.1	49.6	2.5
Department of Finance	15.1	39.5	34.1	5.4	110.5	110.5	98.8	11.7
Department of Health & Social Services	1,089.6	1,110.8	1,087.2	23.6	125.3	125.3	100.0	25.3
Department of Services to Children, Youth and Their Families	153.7	149.8	149.5	0.3	23.7	23.7	24.3	(0.6)
Department of Corrections	269.7	267.1	273.5	(6.4)	4.1	4.1	3.2	0.9
Department of Natural Resources and Environmental Control	36.3	55.7	49.6	6.1	96.7	96.7	59.0	37.7
Department of Safety & Homeland Security	146.4	145.8	145.6	0.2	22.4	22.4	16.6	5.8
Department of Transportation	-	-	-	-	342.4	342.4	348.7	(6.3)
Department of Labor	9.3	9.0	9.0	-	13.8	13.8	11.7	2.1
Department of Agriculture	8.3	8.1	8.4	(0.3)	7.6	7.6	4.6	3.0
Department of Elections	4.3	4.4	3.9	0.5	-	-	-	-
Fire Prevention Commission	5.3	5.4	5.4	-	2.6	2.6	1.9	0.7
Delaware National Guard	4.8	4.2	4.2	-	-	-	-	-
Higher Education	227.6	234.1	234.6	(0.5)	-	-	-	-
Department of Education	1,217.9	1,268.7	1,242.7	26.0	5.1	5.1	2.6	2.5
Total Expenditures	$ 3,718.1	$ 3,907.8	$ 3,794.1	$ 113.7	$ 1,069.8	$ 1,069.8	$ 896.4	$ 173.4
Excess (Deficiency) of Revenues over (under) Expenditures	22.5	(343.1)	(221.4)	121.7	-	-	197.9	197.9
Budgetary Fund Balance, Beginning of Year	719.7	619.1	637.4	18.3	630.7	630.7	777.7	147.0
Budgetary Fund Balance, End of Year	$ 742.2	$ 276.0	$ 416.0	$ 140.0	$ 630.7	$ 630.7	$ 975.6	$ 344.9

Budgetary Fund Balance

Designated:	
Budget Reserve Account	$ 201.7
Continuing and Encumbered Appropriations	194.8
Undesignated	19.5
Total	$ 416.0

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

Statutory/Budgetary Reconciliations

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

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

Budget vs GAAP Revenue Reconciliation
For the Fiscal Year Ended June 30, 2014
(Expressed in Millions)

Total Budget Basis General and Special Fund Revenue for Fiscal Year 2014		$ 4,667.0
Adjustments: The financial reporting revenues do not include revenues that are part of the general budgetary revenues	(627.3)	
Non-budgetary General Revenues Reclassified to General Fund Revenue	743.9	
To Adjust Revenues, Other Financing Sources and Related Receivables and Deferred Inflows of Resources	(789.1)	
Total General Fund Revenues for Fiscal Year 2014		$ 3,994.5
Federal Fund Revenue	1,890.2	
Local School District Fund Revenue	570.3	
Capital Projects Fund Revenue	-	
		2,460.5
Total GAAP Basis Governmental Funds Revenue for Fiscal Year 2014		$ 6,455.0

Budget vs GAAP Expenditures Reconciliation
For the Fiscal Year Ended June 30, 2014
(Expressed in Millions)

Total Budget Basis General and Special Fund Expenditures for Fiscal Year 2014		$ 4,690.5
Adjustments:		
The financial reporting expenditures do not include expenditures that are part of the general budgetary revenues	(527.3)	
Non-budgetary General Expenditures Reclassified to General Fund Expenditures	764.0	
To Adjust Expenditures, Other Financing Uses and Related Accounts Payable, Accrued Liabilities	(346.6)	
Total General Fund Expenditures for Fiscal Year 2014		$ 4,580.6
Federal Fund Expenditures	1,833.4	
Local School District Fund Expenditures	523.0	
Capital Projects Fund Expenditures	285.7	
		2,642.1
Total GAAP Basis Governmental Funds Expenditures for Fiscal Year 2014		$ 7,222.7

Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 4,448 centerline miles and 1,592 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, 2014 is not available.

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

Structural Rating Numbers and Percentages for Bridges

Calendar Year Ended December 31

	BCR Condition Rating	2014 Number	2014 Percent	2013 Number	2013 Percent	2012 Number	2012 Percent
Good	6-9	1,198	75.3	1,152	73.1	1,140	72.8
Fair	5	307	19.3	331	21.0	310	19.8
Poor	0-4	87	5.4	92	5.8	116	7.4
Totals		1,592	100	1,575	100	1,566	100

Deck Rating Numbers and Percentages for Bridges

Calendar Year Ended December 31

	OPC Condition Rating	2014 Square Feet	2014 Percent	2012 Square Feet	2012 Percent	2010 Square Feet	2010 Percent
Good	6-9	5,886,694	74.9	5,936,967	75.4	6,670,643	85.1
Fair	5	1,650,327	21.0	1,549,714	19.7	679,289	8.7
Poor	0-4	321,851	4.1	384,961	4.9	487,778	6.2
Totals		7,858,872	100	7,871,642	100	7,837,710	100

Center-Line Mile Numbers and Percentages for Road Pavement

Calendar Year Ended December 31

	OPC Condition Rating	2013 Center-Line Mile	2013 Percent	2011 Center-Line Mile	2011 Percent	2009 Center-Line Mile	2009 Percent
Good	3.0-5.0	4,032	90.6	3,796	86.7	3,423	78.5
Fair	2.5-3.0	356	8.0	400	9.1	575	13.2
Poor	Below 2.5	60	1.4	182	4.2	362	8.3
Totals		4,448	100	4,378	100	4,360	100

Comparison of Estimated-to-Actual Maintenance/Preservation*

(Expressed In Thousands)

Fiscal Year ended June 30

	2014	2013	2012
Estimated	$ 198,873	$ 185,399	$ 243,600
Actual	$ 234,800	$ 233,810	$ 285,923

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

Required Supplementary Information – Pension

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

Delaware Public Employees' Retirement System (DPERS)

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

Schedule of Funding Status and Progress
(Expressed in Thousands)

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL AAL AAL (UAAL) (Excess of Assets over Liabilities (2) · ((1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL/ (Excess) as % of Covered payroll (3) / (5)
State Employees	6/30/2014	$ 8,389,765	$ 8,757,980	$ 368,215	95.8%	$ 1,840,521	20.0%
	6/30/2013	7,519,770	8,257,270	737,500	91.1%	1,877,105	39.3%
	6/30/2012	7,270,430	7,949,855	679,425	91.5%	1,881,097	36.1%
Special	6/30/2014	$ 304	$ 200	$ (104)	152.0%	N/A	N/A
	6/30/2013	329	224	(105)	146.9%	N/A	N/A
	6/30/2012	366	264	(102)	138.6%	N/A	N/A
Closed State Police +	6/30/2014	$ 2,002	$ 369,934	$ 367,932	0.5%	N/A	N/A
	6/30/2013	2,668	294,533	291,865	0.9%	$ -	N/A
	6/30/2012	2,748	293,808	291,060	0.9%	124	234725.8%
New State Police	6/30/2014	$ 374,789	$ 390,044	$ 15,255	96.1%	$ 55,067	27.7%
	6/30/2013	317,814	350,885	33,071	90.6%	56,289	58.8%
	6/30/2012	292,262	324,898	32,636	90.0%	54,412	60.0%
Judiciary	6/30/2014	$ 73,325	$ 71,968	$ (1,357)	101.9%	$ 10,244	-13.3%
	6/30/2013	63,512	66,567	3,055	95.4%	10,416	29.3%
	6/30/2012	59,279	65,946	6,667	89.9%	10,387	64.2%

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

N/A - Not Applicable

DelDOT - Delaware Transit Corporation – Pension Data

The most recent information available for Delaware Transit Corporation's annual pension cost and related information for each plan is as follows:

Schedule of Funding Status and Progress

(Expressed in Dollars)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (Excess of Assets over AAL) (a-b)	(d) Funded Ratio (a / b)	(e) Annual Covered Payroll	(f) UAAL (Excess) as % of Covered Payroll (c / e)
DTC Pension Plan	07/01/2013	$ 17,714,631	$ 20,057,791	$ (2,343,160)	88.83%	$ 11,308,455	(20.7)%
	07/01/2012	15,941,868	16,990,051	(1,048,183)	93.83%	11,041,527	(9.49)%
	07/01/2011	15,121,491	16,236,313	(1,114,822)	93.13%	11,253,210	(9.91)%
Contributory Plan	01/1/2014	$ 37,520,422	$ 37,483,272	$ 37,150	100.0%	$ 25,747,945	(.14)%
	01/1/2013	32,243,870	34,423,975	(2,180,105)	93.67%	24,788,597	(8.79)%
	01/1/2012	30,863,722	32,171,013	(1,307,291)	95.94%	22,985,063	(5.69)%

Required Supplementary Information – OPEB Trust

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

OPEB Trust

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

Schedule of Funding Status and Progress
(Expressed in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded Actuarial Accrued Liabilities (UAAL)	(4) Funded Ratios (1) (2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3) / (5)
7/1/2014	$ 290	$ 5,946	$ 5,656	4.90%	$ 2,038	277%
7/1/2013	222	5,988	5,766	3.70%	1,944	297%
7/1/2012	163	5,805	5,642	2.80%	1,885	299%

Valuation Date	July 1, 2014
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4.25%
Rate of Salary Increases	3.25% (Plus Merit Scale)
Ultimate Rate of Medical Inflation	4.25%

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

Schedule of Employer Contributions
(Expressed in Millions)

Fiscal Year	Annual Required Contribution	Percentage of Annual Annual OPEB Costs Contributed
2014	$406.7	50%
2013	397.8	52%
2012	490.5	38%

Required Supplementary Information – DTC OPEB Trust

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

Schedule of Funding Status and Progress

(Expressed in Dollars)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	Excess (deficit) Of assets Over AAL (1-2)	Funded Ratio (1/2)	(3) Covered Payroll	(4) UAAL Excess (deficit) Excess (deficit) as a percentage of covered payroll ((1-2)/3
07/1/2013	$ 1,878,000	$ 135,237,000	$ (133,359,000)	1.39%	$ 38,546,221	(345.97)%
07/1/2012	1,755,283	121,627,000	(119,871,717)	1.44%	34,537,878	(347.07)%
07/1/2011	1,605,000	125,866,000	(124,261,000)	1.28%	31,883,191	(389.74)%

STATE OF DELAWARE

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

Year ended June 30, 2014

(With Independent Auditors' Report Thereon)

STATE OF DELAWARE

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

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (the State) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 19, 2014. Our report includes a reference to other auditors who audited the financial statements of the Delaware State Housing Authority (DSHA), Delaware State University (DSU), Delaware Charter Schools, Riverfront Development Corporation (RDC), and Diamond State Port Corporation (DSPC) within the aggregate discretely presented component units, as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in item 2014-001 in the schedule of findings and questioned costs to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in items 2014-002 through 2014-006 in the accompanying schedule of findings and questioned costs to be significant deficiencies.

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Compliance and Other Matters

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

State's Responses to Findings

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

Purpose of this Report

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

KPMG LLP

Philadelphia, Pennsylvania
December 19, 2014

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

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

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

Report on Compliance for Each Major Federal Program

We have audited State of Delaware's (the State's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2014, except for the Foster Care Title IV-E program. We were engaged to audit the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Foster Care Title IV-E program for the year ended June 30, 2014.

The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The State's basic financial statements include the operations of Delaware State University, the Delaware State Housing Authority, the Diamond State Port Authority, Riverfront Development Corporation, and the Charter Schools, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2014. Our audit, described below, did not include the operations of Delaware State University, the Delaware State Housing Authority, the Diamond State Port Authority, Riverfront Development Corporation, and the Charter Schools because either other auditors were engaged to perform audits in accordance with OMB Circular A-133 for these entities, or because less than $500,000 in federal awards were expended.

Management's Responsibility

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

Auditors' Responsibility

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

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("KPMG International"), a Swiss entity.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified audit opinions on compliance. However, our audit does not provide a legal determination of the State's compliance.

Because of the matters described in the Basis for Disclaimer of Opinion on the Foster Care Title IV-E program paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on compliance for the Foster Care Title IV-E program.

Basis for Disclaimer of Opinion on Foster Care Title IV-E

As described in finding number 2014-048 in the accompanying schedule of findings and questioned costs, the program was not operating under a cost allocation plan submitted in accordance with 45 CFR § 95.509 and 45 CFR § 95.519 regarding CFDA 93.658 Foster Care Title IV-E. As a result of this matter, we were unable to determine whether the State complied with the requirements applicable to Foster Care Title IV-E.

Disclaimer of Opinion on Foster Care Title IV-E

Because of the significance of the matter described in the Basis of Disclaimer of Opinion on Foster Care Title IV-E paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on compliance for the Foster Care Title IV-E program. Accordingly, we do not express an opinion on compliance for the Foster Care Title IV-E program.

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

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

State Agency	Finding Number	CFDA No.	Major Federal Program/Cluster	Compliance Requirement(s)
Department of Education – Appoquinimink School District, Brandywine School District, Capital School District, Christina School District, Caesar Rodney School District, Colonial School District, Indian River School District, Laurel School District, Polytech School District, Seaford School District, Smyrna School District	2014-009	84.010	Title I Grants to Local Educational Agencies	Allowable Costs (Effort Reporting)
		84.027, 84.173	Special Education Cluster	
		84.367	Improving Teacher Quality	
		S-84.395	State Fiscal Stabilization Fund, Race-to-the-Top Incentive Grants, Recovery Act	

Department of Education	2014-011	84.010	Title I Grants to Local Educational Agencies	Equipment and Real Property Management
		84.027, 84.173	Special Education Cluster	
		S-84.395	State Fiscal Stabilization Fund, Race-to-the-Top Incentive Grants, Recovery Act	
Department of Education – Cape Henlopen School District, Colonial School District, Laurel School District	2014-012	84.027, 84.173	Special Education Cluster	Level of Effort/Maintenance of Effort
Department of Education – Delmar School District	2014-013	84.010	Title I Grants to Local Educational Agencies	Period of Availability
Department of Education – All School Districts	2014-016	84.010	Title I Grants to Local Educational Agencies	Reporting: FFATA
		84.367	Improving Teacher Quality State Grants	
		84.027, 84.173	Special Education Cluster	
Department of Education	2014-017	S-84.412	Race-To-The-Top Incentive Early Learning Challenge	Subrecipient Monitoring
Department of Health and Social Services – Division of Management Services/Social Services	2014-020	93.558, S-93.558	Temporary Assistance for Needy Families	Reporting
Department of Health and Social Services – Division of State Service Centers	2014-022	93.568	Low-Income Home Energy Assistance Program	Reporting, Period of Availability
Department of Health and Social Services – Division of Medicaid and Medical Assistance	2014-027	93.775, 93.777, 93.778	Medicaid	Special Test: Provider Eligibility
Department of Health and Social Services – Division of Medicaid and Medical Assistance	2014-028	93.775, 93.777, 93.778	Medicaid	Eligibility
Department of Health and Social Services – Division of Medicaid and Medical Assistance	2014-029	93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges	Reporting
Department of Health and Social Services – Division of Medicaid and Medical Assistance	2014-030	93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges	Reporting: SEFA Reconciliation

Department of Health and Social Services – Division of Public Health	2014-032	93.074 (93.069/ 93.889)	Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements	Allowable Costs (Effort Reporting)
Department of Health and Social Services – Division of Public Health	2014-035	10.557	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC)	Procurement
Department of Health and Social Services – Division of Public Health	2014-036	93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	Allowable Costs (Effort Reporting)
Department of Health and Social Services – Division of Substance Abuse and Mental Health	2014-039	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Allowable Costs/Subrecipient Monitoring
Department of Health and Social Services – Division of Substance Abuse and Mental Health	2014-040	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Special Test: Independent Peer Reviews
Department of Labor – Division of Employment & Training	2014-041	17.258, 17.259, 17.278	Workforce Investment Act Cluster	Reporting
Department of Labor – Division of Unemployment Insurance	2014-044	17.225, S-17.225	Unemployment Insurance	Reporting
Department of Transportation	2014-050	20.500, 20.507, S-20.507	Federal Transit Cluster	Reporting – FFATA
Department of Transportation	2014-051	20.500, 20.507, S-20.507	Federal Transit Cluster	Subrecipient Monitoring
Department of Natural Resources and Environmental Control – Division of Water Resources, Financial Assistance Branch	2014-052	66.458	Capitalization Grants for Clean Water State Revolving Fund	Special Test: Fund Establishment, Loan Repayments, Fund Earnings, and Uses of Funds
Department of Natural Resources and Environmental Control – Division of Water Resources, Financial Assistance Branch	2014-053	66.458	Capitalization Grants for Clean Water State Revolving Fund	Reporting

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

Qualified Opinion on Major Federal Programs Identified in the Table Above

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph above, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major programs identified in the table above for the year ended June 30, 2014.

Basis for Qualified Opinion on Highway Safety Cluster

As described in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient appropriate audit evidence supporting the compliance of the State with CFDAs #20.600, #20.601, #20.602, #20.610, #20.612, #20.613, Highway Safety Cluster as described in finding number 2014-047 for Matching, Level of Effort, and Earmarking because State management did not retain documentation for the Level of Effort calculation and could not provide evidence of its compliance. Consequently, we were unable to determine whether the State complied with the requirements applicable to that program.

Qualified Opinion on Highway Safety Cluster

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph above, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Highway Safety Cluster for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Program

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2014, as identified in the Schedule of Findings and Questioned Costs, Section 1: Summary of Auditors' Results.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as 2014-010, 2014-014, 2014-015, 2014-018, 2014-019, 2014-021, 2014-024, 2014-025, 2014-026, 2014-033, 2014-034, 2014-038, 2014-042, 2014-043, 2014-046, 2014-049, 2014-054, and 2014-055. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-009, 2014-011, 2014-012, 2014-013, 2014-016, 2014-017, 2014-018, 2014-019, 2014-020, 2014-021, 2014-022, 2014-025, 2014-027, 2014-028, 2014-029, 2014-030, 2014-032, 2014-033, 2014-034, 2014-035, 2014-036, 2014-037, 2014-038, 2014-039, 2014-040, 2014-041, 2014-043, 2014-044, 2014-046, 2014-047, 2014-048, 2014-050, 2014-051, 2014-052, 2014-053, and 2014-055 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-007, 2014-008, 2014-010, 2014-014, 2014-015, 2014-023, 2014-024, 2014-026, 2014-031, 2014-042, 2014-045, 2014-049, and 2014-054 to be significant deficiencies.

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

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State’s basic financial statements. We issued our report thereon dated December 19, 2014, which included a reference to other auditors and contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Philadelphia, Pennsylvania
March 25, 2015

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

CFDA NO.		GRANT NAME		EXPENDITURES
		U.S. Department of Agriculture		
10.000		Unassigned	$	37,382.26
10.025		Plant and Animal Disease, Pest Control, and Animal Care		345,940.02
10.069		Conservation Reserve Program		29,834.77
10.163		Market Protection and Promotion		4,239.01
10.170		Specialty Crop Block Grant Program-Farm Bill		223,114.64
10.171		Organic Certification Cost Share Programs		3,212.08
10.458		Crop Insurance Education in Targeted States		229,545.93
10.475		Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		496,858.66
10.550		Food Distribution		3,294,651.53
		SNAP Cluster		
10.551		Supplemental Nutrition Assistance Program (SNAP)	223,690,136.00	
10.561		State Administrative Matching Grants for the Supplemental Nutritional Assistance Program	13,206,287.96	
		Total Food Stamp Cluster		**236,896,423.96**
		Child Nutrition Cluster		
10.553		School Breakfast Program	9,638,616.76	
10.555		National School Lunch Program	29,576,087.48	
10.556		Special Milk Program for Children	28,701.94	
10.559		Summer Food Service Program for Children	2,178,214.42	
10.559	**S**	ARRA - Summer Food Service Program for Children	179,125.53	
		Total Child Nutrition Cluster		**41,600,746.13**
10.557		Special Supplemental Nutrition Program for Women, Infants & Children		7,176,754.38
10.558		Child and Adult Care Food Program		14,938,424.81
10.560		State Administrative Expenses for Child Nutrition		918,464.25
		Food Distribution Cluster		
10.565		Commodity Supplemental Food Program	161,999.34	
10.568		Emergency Food Assistance Program (Administrative Costs)	132,470.53	
10.569		Emergency Food Assistance Program (Food Commodities)	1,305,774.00	
		Total Food Distribution Cluster		**1,600,243.87**
10.575		Farm to School Grant Program		18,010.38
10.578		WIC Grants to States (WGS)		126,010.00
10.578	**S**	ARRA - WIC Grants to States (WGS)		829,444.15
10.579		Child Nutrition Discretionary Grants Limited Availability		180,530.24
10.580		Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants		13,922.68
10.582		Fresh Fruit and Vegetable Program		1,757,257.38
10.664		Cooperative Forestry Assistance		151,137.41
10.675		Urban and Community Forestry Program		190,669.07
10.676		Forest Legacy Program		26,255.80
10.678		Forest Stewardship Program		172,262.30
10.680		Forest Health Protection		119,563.00
10.913		Farmland Protection Program		3,675,994.54
		Total U.S. Department of Agriculture		**315,056,893.25**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

CFDA NO.		GRANT NAME		EXPENDITURES
		U.S. Department of Commerce		
11.000		Delaware FY13 Disaster Relief NERRS Monitoring Assets		202,407.55
		Economic Development Cluster		
11.300		Investments for Public Works and Economic Development Facilities	910,056.56	
11.307		Economic Development Special Economic Development and Adjustment		
		Adjustment Assistance Program	131,493.16	
		Total Economic Development Cluster		**1,041,549.72**
11.419		Coastal Zone Management Administration Awards		1,282,873.19
11.420		Coastal Zone Management Estuarine Research Reserves		497,201.69
11.439		Marine Mammal Data Program		17,500.00
11.472		Unallied Science Program		336,406.01
11.474		Atlantic Coastal Fisheries Cooperative Management Act		145,887.34
11.557	**S**	ARRA-Broadband technology Opportunities Program		292,552.22
11.558	**S**	ARRA-State Broadband Data and Development Grant Program		270,721.46
11.611		Manufacturing Extension Partnership DEMEP NIST Grant		185,091.56
		Total U.S. Department of Commerce		**4,272,190.74**
		U.S. Department of Defense		
12.000		Issue of Department Of Defense excess equipment		402,281.82
12.113		State Memorandum of Agreement Program for the Reimbursement		
		of Technical Services		15,579.33
12.401		National Guard Military Operations and Maintenance (O&M) Projects		
		Total National Guard Military Operations and Maintenance		14,446,876.42
12.900		Language Grant Program		63,221.93
		Total U.S. Department of Defense		**14,927,959.50**
		U.S. Department of Housing and Urban Development		
14.235		Supportive Housing Program		267,115.30
14.401		Fair Housing Assistance Program		119,297.91
		Total U.S. Department of Housing and Urban Development		**386,413.21**
		U.S. Department of the Interior		
		Fish and Wildlife Cluster		
15.605		Sport Fish Restoration	3,022,903.79	
15.611		Wildlife Restoration and Basic Hunter Education	1,477,748.50	
		Total Fish and Wildlife Cluster		**4,500,652.29**
15.608		Fish and Wildlife Mangement Assistance		3,656.25
15.614		Coastal Wetlands Planning, Protection and Restoration Act		13,884.06
15.615		Cooperative Endangered Species Conservation Fund		23,007.91
15.633		Landowner Incentive		148,872.40
15.634		State Wildlife Grants		711,592.60
15.654		Visitor Facility Enhancements		7,503.96

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

CFDA NO.		GRANT NAME		EXPENDITURES
15.657		Endangered Species Conservation Recovery		26,402.60
15.904		Historic Preservation Fund Grants-In-Aid		485,089.97
15.916		Outdoor Recreation, Acquisition, Development and Planning		34,552.12
		Total U.S. Department of the Interior		**5,955,214.16**
		U.S. Department of Justice		
16.013		Violence Against Women Act Court Training and Improvement Grants		104,868.76
16.017		Sexual Assault Services Program		182,254.79
16.203		Mangement Discretionary Grant Program		135,127.51
16.523		Juvenile Accountability Incentive Block Grants		163,730.98
16.527		Supervised Visitation, Safe Havens for Children		4,414.53
16.540		Juvenile Justice and Delinquency Prevention - Allocation to States		516,599.93
16.543		Missing Children's Assistance		305,273.01
16.548		Title V - Delinquency Prevention Program		47,554.26
16.550		State Justice Statistics Program for Statistical Analysis Centers		31,171.44
16.554		National Criminal History Improvement Program		185,900.72
16.575		Crime Victim Assistance		1,620,290.61
16.576		Crime Victim Compensation		487,473.51
16.580		Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		26,833.01
16.585		Drug Court Discretionary Grant		47,573.75
16.588		Violence Against Women Formula Grants		930,974.94
16.593		Residential Substance Abuse Treatment for State Prisoners		109,973.70
16.606		State Criminal Alien Assistance Program (SCAAP)		152,467.93
16.607		Bulletproof Vest Partnership Program		17,468.99
16.609		Project Safe Neighborhoods		47,504.95
16.710		Public Safety Partnership and Community Policing Grants		29,029.00
16.727		Enforcing Underage Drinking Laws Program		41,473.47
		JAG Program Cluster		
16.738		Edward Byrne Memorial Justice Assistance Grant Program	1,147,881.04	
		Total JAG Program Cluster		**1,147,881.04**
16.740		Statewide Automated Victim Information Notification (SAVIN) Program		35,369.82
16.741		Forensic DNA Capacity Enhancement Program		62,447.94
16.742		Paul Coverdell Forensic Sciences Improvement Grant Program		144,358.36
16.746		Capital Case Litigation		57,299.29
16.748		Convicted Offender and/or Arrestee DNA Backlog Reduction Program		834,939.05
16.751		Edward Byrne Memorial Competitive Grant Program		120,122.59
16.754		Harold Rogers Prescription Drug Monitoring Program		128,270.92
16.800	**S**	ARRA-Recovery Act-Internet Crimes Against Children Task Force Program		64,876.09
16.812		Second Chance Act Prisoner Reentry Initiative		794,296.29
16.816		John R Justice Prosecutors and Defenders Incentive Act		3,597.72
16.821		Juvenile Justice Reform and Reinvestment Demonstration Program		59,857.74
		Total U.S. Department of Justice		**8,641,276.64**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

CFDA NO.		GRANT NAME		EXPENDITURES
		U.S. Department of Labor		
17.002		Labor Force Statistics		538,492.42
17.005		Compensation and Working Conditions		65,012.86
17.203		Labor Certification for Alien Workers		4.00
		Employment Services Cluster		
17.207		Employment Service / Wagner-Peyser Funded Activities	2,569,601.12	
17.801		Disabled Veterans' Outreach Program (DVOP)	274,400.75	
17.804		Local Veterans' Employment Representative Program	205,389.76	
		Total Employment Services Cluster		**3,049,391.63**
17.225		Unemployment Insurance	128,880,463.91	
17.225	**S**	ARRA-Unemployment Insurance	16,396,011.25	
		Total Unemployment Insurance		**145,276,475.16**
17.235		Senior Community Service Employment Program		1,789,748.38
17.245		Trade Adjustment Assistance		324,000.91
		Workforce Investment Act (WIA) Cluster		
17.258		WIA Adult Program	1,784,826.43	
17.259		WIA Youth Activities	1,697,249.26	
17.278		WIA Dislocated Worker Formula Grants	2,104,378.16	
		Total WIA Cluster		**5,586,453.85**
17.271		Work Opportunity Tax Credit Program		58,905.52
17.273		Temporary Labor Certification for Foreign Workers		84,207.53
17.277		Workforce Investment Act (WIA) National Emergency Grants		304,216.66
17.282		Trade Adjustment Assistance Community College and Career Training (TAACCCT)		2,604,443.01
17.504		Consultation Agreements		385,310.65
		Total U.S. Department of Labor		**160,066,662.58**
		U.S. Department of Transportation		
20.XXX		Coast Guard Marine, Harbor, and Waterfront Services		274,800.93
20.106		Airport Improvement Program (FAA)		50,790.60
20.218		National Motor Carrier Safety		895,458.52
		Highway Planning and Construction Cluster		
20.205		Highway Planning and Construction	175,775,925.57	
20.205	**S**	ARRA - Highway Planning and Construction	48,609.59	
20.219		Recreational Trails Program	2,475.99	
		Total Highway Planning and Construction Cluster		**175,827,011.15**
20.231		Performance & Registration Information Systems Mgmt.		2,455.67
20.237		Commercial Vehicle Information Systems & Networks		278,363.71
20.317		Capital Assistance to States - Inercity Passenger Rail Service		18,364.04
20.319		High-Speed Rail Corridors and Intercity Passenger Rail Service Capital Assistance Granted (B)		960,244.46

(Continued)

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

CFDA NO.		GRANT NAME	EXPENDITURES	
		Federal Transit Cluster		
20.500		Federal Transit - Capital Investment Grants	2,880,072.82	
20.507		Federal Transit Cluster	10,175,855.85	
20.507	**S**	ARRA - Federal Transit Cluster	377,399.76	
		Total Federal Transit Cluster		**13,433,328.43**
		Transit Services Program Cluster		
20.513		Enhanced Mobility for Seniors and Individuals with Disabilities	462,563.00	
20.516		Job Access and Reverse Commute Program	357,465.00	
20.521		New Freedom Program	229,577.98	
		Total Transit Services Program Cluster		**1,049,605.98**
		Highway Safety Cluster		
20.600		State and Community Highway Safety	2,160,304.03	
20.601		Alcohol Impaired Driving Countermeasures Incentive Grants I	1,455,935.41	
20.601	**S**	ARRA - Alcohol Impaired Driving Countermeasures Incentive Grants I	14,123.29	
20.602		Occupant Protection Incentive Grants	405,860.89	
20.610		State Traffic Safety Information System Improvement Grants	449,897.06	
20.610	**S**	ARRA - State Traffic Safety Information System Improvement Grants	216,173.57	
20.612		Incentive Grant Program to Increase Motorcyclist Safety	73,080.55	
20.613		Child Safety and Child Booster Seats Incentive Grants	52,341.18	
		Total Highway Safety Cluster		**4,827,715.98**
20.505		Federal Transit_Metropolitan Planning Grants		55,830.40
20.509		Formula Grants for Other Than		756,439.80
20.519		Clean Fuels - FTA & FHWA		3,415,989.03
20.607		Alcohol Open Container Requirements		602,542.17
20.614		National Highway Transportation Safety Administration Discretionary Safety		37,175.68
20.703		Interagency Hazardous Materials Public Sector Training and Planning Grants		89,935.07
20.933		National Infrastructure Investments - TIGER Discretionary Grants		386,949.13
20.933	**S**	ARRA- National Infrastructure Investments - TIGER Discretionary Grants		1,881,155.93
		Total U.S. Department of Transportation		**204,844,156.68**
		Department of the Treasury		
21.XXX		Unassigned - Asset Forfeiture - Treasury		1,409,579.83
		Total Department of the Treasury		**1,409,579.83**
		Equal Employment Opportunity Commission		
30.001		Employment Discrimination - Title VII of the Civil Rights Act of 1964		278,870.05
		Total Equal Employment Opportunity Commission		**278,870.05**
		General Services Administration		
39.011		Unassigned		490,496.72
		Total General Service Administration		**490,496.72**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

CFDA NO.		GRANT NAME	EXPENDITURES	
		National Endowment for the Arts		
45.025		Promotion of the Arts - Partnership Agreements		599,540.50
		Total National Endowment for the Arts		**599,540.50**
		Institute of Museum and Library Services		
45.310		Grants to States		666,333.02
		Total Institute of Museum and Library Services		**666,333.02**
		National Science Foundation (R & D)		
47.076		Education and Human Resources	72,412.10	
47.076	**S**	ARRA-Education and Human Resources	113,704.34	
		Total Education and Human Resources		**186,116.44**
47.079		Office of International and Integrative Activities		129,595.13
47.080		Office of Cyber infrastructure		80,550.47
		Total National Science Foundation		**396,262.04**
		Small Business Administration		
59.000		Displaced Business Loans		61,798.11
		Total Small Business Administration		**61,798.11**
		U.S. Department of Veterans Administration		
64.203		State Cemetery Grants		449,453.49
		Total U.S. Department of Veterans Administration		**449,453.49**
		U.S. Environmental Protection Agency		
66.001		Air Pollution Control Program Support		1,263,687.84
66.032		State Indoor Radon Grants		124,956.79
66.034		Surveys Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act		221,036.52
66.040		State Clean Diesel Grant Program		96,446.62
66.202		Congressionally Mandated Projects		29,062.80
66.419		Water Pollution Control State and Interstate Program Support		1,450,107.41
66.432		State Public Water System Supervision		634,140.10
66.433		State Underground Water Source Protection		69,589.70
66.454		Water Quality Management Planning		111,348.42
66.460		Nonpoint Source Implementation Grants		1,298,205.67
66.461		Wetland Program Development Grants		335,690.89
66.466		Chesapeake Bay Program		1,217,080.07

(Continued)

CFDA NO.		GRANT NAME	EXPENDITURES	
		Clean Water State Revolving Fund Cluster		
66.458		Capitalization Grants for Clean Water State Revolving Funds		
		Total Clean Water State Revolving Fund Cluster	26,781,526.67	
				26,781,526.67
		Drinking Water State Revolving Fund Cluster		
66.468		Capitalization Grants for Drinking Water State Revolving Funds	6,748,198.26	
		Total Drinking Water State Revolving Fund Cluster		**6,748,198.26**
66.472		Beach Monitoring and Notification Program Implementation Grants		222,251.97
66.605		Performance Partnership Grants		411,739.93
66.608		Environmental Information Exchange Network Grant Program and Related Assistance		133,882.92
66.707		TSCA Title IV State Lead Grants Certification of Lead Based Paint Professionals		189,585.51
66.801		Hazardous Waste Management State Program Support		606,140.01
66.802		Hazardous Substance Response Trust Fund		354,282.26
66.804		Underground Storage Tank Prevention, Detection and Compliance Program		681,863.07
66.805		Leaking Underground Storage Tank Trust Fund Corrective Action Program		290,729.20
66.809		Core Program Cooperative Agreements		511,807.20
66.817		State and Tribal Response Program Grants		482,111.39
66.818		Brownfield's Assessment & Cleanup Cooperative Agreements		26,646.21
66.951		Environmental Education Grants		463.48
		Total U.S. Environmental Protection Agency		**44,292,580.91**
		U.S. Department of Energy		
81.000		Unassigned		24,958.41
81.041		State Energy Program	386,164.62	
		Total State Energy Program		**386,164.62**
81.042		Weatherization Assistance for Low-Income Persons	1,140,981.80	
81.042	**S**	ARRA-Weatherization Assistance for Low-Income Persons	899,309.28	
		Total Weatherization Assistance for Low-Income Persons		**2,040,291.08**
81.122	**S**	ARRA-Electricity Delivery and Energy Reliability, Research, Development & Analysis		79,398.51
		Total U.S. Department of Energy		**2,530,812.62**
		U.S. Department of Education		
84.002		Adult Education - State Grant Program		1,561,005.94
		Title I, Part A Cluster		
84.010		Title I Grants to Local Educational Agencies	39,301,555.99	
		Total Title 1, Part A Cluster		**39,301,555.99**
84.011		Migrant Education - State Grant Program		408,902.13
84.013		Title I State Agency Program for Neglected and Delinquent Children		400,692.33
		Special Education Cluster (IDEA)		
84.027		Special Education - Grants to States (IDEA, Part B)	29,269,037.14	
84.173		Special Education - Preschool Grants (IDEA Preschool)	1,117,674.15	
		Total Special Education Cluster		**30,386,711.29**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

CFDA NO.	GRANT NAME	EXPENDITURES	
	Student Financial Assistance Cluster		
84.007	Federal Supplemental Educational Opportunity Grants	395,363.92	
84.033	Federal Work Study Program	279,903.78	
84.063	Federal Pell Grant Program	22,198,256.03	
84.268	Federal Direct Student Loan	9,383,945.00	
	Total Student Financial Assistance Cluster		**32,257,468.73**
	TRIO Cluster		
84.042	TRIO - Student Support Services	282,287.46	
84.044	TRIO - Talent Search	273,071.38	
84.047	TRIO - Upward Bound	1,295,670.59	
	Total TRIO Cluster		**1,851,029.43**
84.048	Vocational Education - Basic Grants to States		3,864,575.22
84.144	Migrant Education Discretionary Interstate/Intrastate Coordination Program		83,819.78
	Vocational Rehabilitation Cluster		
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	11,738,114.22	
	Total Rehabilitation Cluster		**11,738,114.22**
	Independent Living State Grants Cluster		
84.169	Independent Living - State Grants	214,658.58	
	Total Independent Living State Grants Cluster		**214,658.58**
	Independent Living Services for Older Individuals Who Are Blind Cluster		
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	202,122.98	
	Total Independent Living Serv. For Older Individuals/Blind Cluster		**202,122.98**
	Early Intervention Services (IDEA) Cluster		
84.181	Special Education - Grants for Infants and Families with Disabilities	2,136,302.70	
	Total Early Intervention Services (IDEA) Cluster		**2,136,302.70**
84.185	Byrd Honors Scholarships		(4,750.00)
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities		199,498.69
	Education of Homeless Children and Youth Cluster		
84.196	Education for Homeless Children and Youth	166,562.64	
84.387	Education for Homeless Children and Youth Recovery Act	283,152.34	
	Total Education of Homeless Children and Youth Cluster		**449,714.98**
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training		29,134.62
84.287	Twenty-First Century Community Learning Centers		5,032,251.18
	Educational Technology State Grants Cluster		
84.318	Education Technology State Grants	(82,812.37)	
	Total Educational Technology State Grants Cluster		**(82,812.37)**

CFDA NO.		GRANT NAME		EXPENDITURES
84.323		Special Education-State Program Improvement Grants for Children with Disabilities		704,344.35
84.326		Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		97,853.78
84.330		Advanced Placement Program		13,600.00
84.358		Rural Education Achievement Program		110,438.91
84.365		English Language Acquisition Grants		894,879.63
84.366		Mathematics and Science Partnerships		1,113,014.77
84.367		Improving Teacher Quality State Grants		8,838,979.11
84.369		Grants for State Assessments and Related Activities		4,170,138.69
		School Improvement Grants Cluster		
84.377		School Improvement Grants	1,985,098.90	
84.388	**S**	ARRA-School Improvement Grants, Recovery Act	1,405,768.92	
		Total School Improvement Grants Cluster		**3,390,867.82**
		Statewide Data Systems Cluster		
84.372		Statewide Data Systems	1,721,216.67	
		Total Statewide Data Systems Cluster		**1,721,216.67**
84.378		College Access Challenge Grant Program		1,165,064.29
84.395	**S**	ARRA-State Fiscal Stabilization Fund (SFSF)-Race-to-the-top Incentive Grants, Recovery Act		24,936,029.78
84.412	**S**	Race to the Top Early Learning		12,405,239.64
		Total U.S. Department of Education		**189,591,663.86**
		National Archives and Records Administration		
89.003		National Historical Publications and Records Grants		590.00
		Total National Archvies and Records Administration		**590.00**
		U.S. Election Assistance Commission		
90.401		Help American Vote Act Requirements Payments		827,558.43
		Total U.S. Election Assistance Commission		**827,558.43**
		U.S. Department of Health and Human Services		
93.041		Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation		33,667.80
93.042		Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals		86,552.77
93.043		Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services		103,148.89
		Aging Cluster		
93.044		Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	2,325,666.41	
93.045		Special Programs for the Aging-Title III, Part C-Nutrition Services	2,361,287.59	
93.053		Nutrition Services Incentive Program	233,717.79	
		Total Aging Cluster		**4,920,671.79**
93.048		Special Programs for the Aging-Title IV and Title II Discretionary Projects		322,674.48
93.052		National Family Caregiver Support		583,677.45
93.069		Public Health Emergency Preparedness		949,634.46

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

CFDA NO.		GRANT NAME		EXPENDITURES
93.071		Medical Enrollment Assistance Program		14,086.85
93.072		Lifespan Respite Care Program		133,152.41
93.074		Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements		5,602,587.28
93.079		Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance		70,238.07
93.092		Personal Responsibility Education Program		254,344.40
93.103		Food and Drug Administration Research		4,016.39
93.104		Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)		1,862,043.89
93.110		Maternal and Child Health Federal Consolidated Programs		757,952.94
93.116		Project Grants and Cooperative Agreements for Tuberculosis Control Programs		238,664.69
93.127		Emergency Medical Services for Children		124,653.74
93.130		Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices		218,576.41
93.136		Injury Prevention and Control Research and State and Community Based Programs		56,726.95
93.150		Projects for Assistance in Transition from Homelessness (PATH)		100,625.35
93.165		Grants for State Loan Repayment		70,264.50
93.217		Family Planning Services		1,110,698.92
93.236		Grants for Dental Public Health Residency Training		488,445.50
93.243		Substance Abuse and Mental Health Services Projects of Regional and National Significance		3,512,555.87
93.251		Universal Newborn Hearing Screening		301,335.95
93.270		Adult Viral Hepatitis Prevention and Control		81,712.26
		Immunization Cluster		
93.268		Immunization Grants	11,168,099.91	
		Total Immunization Cluster		**11,168,099.91**
93.279		Drug Abuse Research Programs		16,930.16
93.283		Centers for Disease Control and Prevention, Investigations, and Technical Assistance		3,968,770.19
93.292		National Public Health Improvement Initiative		118,263.45
93.296		State Partnership Grant Program to Improve Minority Health		27,845.34
93.414	**S**	ARRA - State Primary Care Offices		123,140.00
93.505		Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		4,226,766.15
93.506		ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers		445,153.71
93.507		Strengthening Public Health Infrastructure for Improved Health Outcomes		61,671.02
93.521		Affordable Care Act (ACA) Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF		441,598.03
93.525		State Planning and Establishment Grants for the Affordable Care Act (ACA)s Exchanges		10,348,153.06
93.539		Prevention and Public Health Fund (ACA)		374,793.14
93.544		Coordinated Chronic Disease Prevention		250,015.06
93.556		Promoting Safe and Stable Families		995,489.12

(Continued)

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

CFDA NO.		GRANT NAME	EXPENDITURES	
		TANF Cluster		
93.558		Temporary Assistance for Needy Families	35,733,978.08	
93.558	S	ARRA - Temporary Assistance for Needy Families	93,530.59	
		Total TANF Cluster		**35,827,508.67**
93.563		Child Support Enforcement		24,915,437.29
93.566		Refugee and Entrant Assistance-State Administered Programs		157,124.27
93.568		Low-Income Home Energy Assistance		12,714,444.53
		CSBG Cluster		
93.569		Community Services Block Grant	3,703,715.00	
		Total CSBG Cluster		**3,703,715.00**
93.586		State Court Improvement Program		355,515.86
93.590		Community Based Resource Centers		13,000.00
		CCDF Cluster		
93.575		Child Care and Development Block Grant	4,522,034.67	
93.596		Child Care Mandatory & Matching Funds of the Child Care and Development Fund	9,313,350.02	
		Total CCDF Cluster		**13,835,384.69**
93.597		Grants to States for Access and Visitation Programs		131,551.50
93.599		Chafee Education and Training Vouchers Program (ETV)		87,622.40
		Head Start Cluster		
93.600		Head Start	118,237.69	
93.708	S	ARRA - Head Start	135,251.18	
		Total Head Start Cluster		**253,488.87**
93.603		Adoption Incentive Payments		2,589.00
93.617		Voting Access for Individuals		61,358.25
93.624		ACA: State Innovation Models: Funding for Model Design and Model Testing Assistance		2,434,410.80
93.630		Developmental Disabilities Basic Support and Advocacy Grants		518,870.89
93.643		Children's Justice Grants to States		89,948.01
93.645		Child Welfare Services - State Grants		583,951.45
93.658		Foster Care - Title IV-E		6,884,666.54
93.659		Adoption Assistance		1,528,287.21
93.667		Social Services Block Grant		3,942,428.05
93.669		Child Abuse and Neglect State Grants		104,276.40
93.671		Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes		848,780.09
93.674		Chafee Foster Care Independent Living		504,578.18
93.733		Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance		46,929.59
93.735		State Public Health Approaches for Ensuring Quitline Capacity		50,000.00
93.767		Children's Health Insurance Program		23,965,988.90
		Medicaid Cluster		
93.775		State Medicaid Fraud Control Units	1,369,417.41	
93.777		State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	1,805,864.75	
93.778		Medical Assistance Program	1,043,297,153.44	
		Total Medicaid Cluster		**1,046,472,435.60**

CFDA NO.	GRANT NAME		EXPENDITURES
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations		219,539.64
93.791	Money Follows the Person Rebalancing Demonstration		194,464.49
93.859	Pharmacological Sciences		131,642.88
93.889	National Bioterrorism Hospital Preparedness Program		500,183.25
93.913	Grants to States for Operation of Offices of Rural Health		205,428.77
93.917	HIV Care Formula Grants		4,582,622.58
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems		58,835.00
93.940	HIV Prevention Activities Health Department Based		1,172,976.23
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		503,620.53
93.945	Assistance Programs for Chronic Disease Prevention and Control		454,271.92
93.946	Cooperative Agreements to Support State-Based Safe Motherhood & Infant Health Initiative Programs		159,374.56
93.958	Block Grants for Community Mental Health Services		577,307.02
93.959	Block Grants for Prevention and Treatment of Substance Abuse		7,300,312.50
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants		314,045.62
93.991	Preventive Health and Health Services Block Grant		114,239.61
93.994	Maternal and Child Health Services Block Grant to the States		1,861,993.64
	Total U.S. Department of Health and Human Services		**1,252,954,548.63**
	Corporation for National and Community Service		
94.002	Retired and Senior Volunteer Program		129,192.39
94.003	State Commissions		119,217.74
94.006	AmeriCorps		630,014.74
94.007	Program Development and Innovation Grants		2,780.94
	Foster Grandparent/Senior Companion Cluster		
94.011	Foster Grandparent Program	425,208.48	
	Total Foster Grandparent/Senior Companion Cluster		**425,208.48**
	Total Corporation for National and Community Service		**1,306,414.29**
	Social Security Administration		
	Disability Insurance/SSI Cluster		
96.001	Social Security - Disability Insurance	6,975,794.61	
	Total Disability Insurance/SSI Cluster		**6,975,794.61**
96.008	Social Security - Work Incentives Planning and Assistance Program		51,714.21
	Total Social Security Administration		**7,027,508.82**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

CFDA NO.	GRANT NAME		EXPENDITURES
	U.S. Department Homeland Security		
	Homeland Security Cluster		
97.067	Homeland Security Grant Program	7,168,946.57	
	Total Homeland Security Cluster		**7,168,946.57**
97.012	Boating Safety Financial Assistance		1,069,367.45
97.023	Community Assistance Program State Support Services Element (CAP-SSSE)		77,035.52
97.036	Public Assistance Grants		1,258,102.46
97.039	Hazard Mitigation Grant		24,468.67
97.041	National Dam Safety Program		59,857.26
97.042	Emergency Management Performance Grants		3,263,650.70
97.043	State Fire Training Systems Grants		8,399.80
97.045	Cooperating Technical Partners		267,080.09
97.047	Pre-Disaster Mitigation		460,491.28
97.056	Port Security Grant Program		642,780.33
97.089	Driver's License Security Grant Program (Dept. of Homeland Security, FEMA)(Real ID Demo)		8,640.00
	Total U.S. Department Homeland Security		**14,308,820.13**
	Total Expenditures of Federal Awards	$	**2,231,343,598.21**

Legend:	
S	Award made under the American Recovery and Reinvestment Act

STATE OF DELAWARE

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(1) Reporting Entity

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

(2) Basis of Accounting

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

(3) Federal Direct Student Loan Program

Federally guaranteed loans issued to students of Delaware Technical and Community College (the College) by financial institutions during the year ended June 30, 2014 totaled $ 9,383,945. 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, 2014 are $ 145,276,475 which includes ARRA claims of $16,396,011.

(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)	3,173,142
10.551	Supplemental Nutrition Assistance Program (EBT Payments)	223,690,136
10.569	Emergency Food Assistance Program (Commodities)	1,305,774
93.268	Immunization Grants (Vaccines)	9,372,792

(6) 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, 2014

(1) Summary of Auditors' Results

Basic Financial Statements

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

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

(c) Significant deficiencies: **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
17.225	Unemployment Insurance
17.258, 17.259, 17.278	Workforce Investment Act Cluster
20.500, 20.507, S-20.507	Federal Transit Cluster
20.600, 20.601, S-20.601, 20.602, 20.610, S-20.610, 20.612, 20.613	Highway Safety Cluster
66.458	Capitalization Grants for Clean Water State Revolving Fund
66.468	Capitalization Grants for Drinking Water State Revolving Fund
84.010	Title I Grants to Local Educational Agencies
84.027, 84.173	Special Education Cluster
84.367	Improving Teacher Quality Grants

CFDA No.	Program Name
S-84.395	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
S-84.412	Race-to-the-Top Early Learning Challenge
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements
93.268	Immunization Cluster
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges
93.558, S-93.558	Temporary Assistance for Needy Families Cluster
93.568	Low-Income Home Energy Assistance Program
93.575, 93.596	Child Care Cluster
93.658	Foster Care Title IV-E
93.775, 93.777, 93.778	Medicaid Cluster
93.917	HIV Care Formula Grants
93.959	Block Grants for Prevention and Treatment of Substance Abuse

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

Major programs with significant deficiencies:

CFDA No.	Program Name
10.558	Child and Adult Care Food Program
17.225, S-17.225	Unemployment Insurance
17.258, 17.524, 17.278	Workforce Investment Act
66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster
84.010	Title I Grants to Local Educational Agencies, Part A, Cluster
84.027, 84.173	Special Education Cluster

CFDA No.	**Program Name**
84.367	Improving Teacher Quality State Grants
S-84.395	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
S-84.412	Race-to-the-Top - Early Learning Challenge
93.558, S-93.558	Temporary Assistance For Needy Families Cluster
93.563	Child Support Enforcement
93.575, 93.596	Child Care Cluster
93.658	Foster Care Title IV-E

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

Type of Opinion	**Program Name**
Disclaimer	
93.658	Foster Care Title IV-E
Qualified	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
17.225, S-17.225	Unemployment Insurance
17.258, 17.259, 17.278	Workforce Investment Act Cluster
20.500, 20.507, S-20.507	Federal Transit Cluster
20.600, 20.601, S-20.601, 20.602, 20.610, S-20.610, 20.612, 20.613	Highway Safety Cluster
66.458	Capitalization Grants for Clean Water State Revolving Fund
84.010	Title I Grants to Local Educational Agencies, Part A, Cluster

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2014

Type of Opinion	Program Name
Qualified, continued	
84.027, 84.173	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
S-84.412	Race-to-the-Top Early Learning Challenge
93.074 (93.069/ 93.889)	Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements
93.283	Center for Disease Control and Prevention_Investigations and Technical Assistance
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges
93.558	Temporary Assistance For Needy Families Cluster
93.568	Low-Income Home Energy Assistance Program
93.775, 93.777, 93.778	Medicaid Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse
Unmodified	
10.551, 10.561	Supplemental Nutrition Assistance Program Cluster
10.558	Child and Adult Care Food Program
20.205, S-20.205, 20.219	Highway Planning and Construction Cluster
66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster
93.268	Immunization Cluster
93.563	Child Support Enforcement
93.575, 93.596	Child Care Cluster
93.917	HIV Care Formula Grants
96.001	Disability Insurance/SSI Cluster

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

(i) Identification of Major Programs:

CFDA Number	Federal Award Number	Program Name
10.551, 10.561	2011S251441 11111DE458Q3903 12121DE411S8204 1212DE401E2518 1313DE401E2518 1313DE401IS7503 1313DE401S2514 1313DE401S2519 1313DE401S2520 1313DE401S2522 1313DE401S8036 1313DE431S7503	Supplemental Nutrition Assistance Program Cluster
10.557	2012IW500341 2013IW100341 2013IW100641 13131DE701W5003 2014IW100341 IDE720701W	Special Supplemental Nutrition Program for Women, Infants & Children
10.558	2013IN105041 2013IN109941 2013IN202041 2014IN205041 2014IN109941 2014IN202041	Child and Adult Care Food Program
17.225, S-17.225	UI-23884-13-55-A-10 ES-22987-12-55-A-10 ES-22987-13-55-A-10 ES-24606-13-55-A-10 SAI 12-07-03-04 UI10446530955A10 UI21091IF OR DV UI22267JH UI-23884-14-55-A-10 UI-25194-14-55-A-10	Unemployment Insurance
17.258, 17.259, 17.278	AA-20186-10-55-A-10 AA-21387-11-55-A-10	Workforce Investment Act Cluster

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2014

CFDA Number	Federal Award Number	Program Name
	AA-22927-12-55-A-10 AA-22927-13-55-A-10 AA-24084-13-55-A-10	
20.205, S-20.205, 20.219	TRANSPORTATION ENHANCEMENT HEV-DE	Highway Planning and Construction Cluster
20.500, 20.507, S-20.507	DE-03-0016-02 DE-90-X030-00 DE-90-X032-00 DE-90-X033-00 DE-90-X034-00 DE-90-X035-00 DE-90-X036-00 DE-96-X001-00 DE-04-0003-00 DE-04-0004-00	Federal Transit Cluster
20.600, 20.601, S-20.601, 20.602, 20.610, S-20.610, 20.612, 20.613		Highway Safety Cluster
66.458	CS-10000112-0	Capital Grants for Clean Water State Revolving Fund
66.468,	99391412 FS99391410 FS99391411 FS-99391413 WP-97360401-0	Capitalization Grants for Drinking Water State Revolving Funds
84.007, 84.033, 84.063, 84.268	P007A120812 P007A120814 P007A130812 P007A130814 P007A130815 P033A120812 P033A120814 P033A120815 P033A130812 P033A130814 P033A130815 P063P122885 P063P123468	Student Financial Assistance Cluster

CFDA Number	Federal Award Number	Program Name
	P063P123817 P268K132885 P268K133468 P268K133817 P268K142885 P268K143468 P268K143817 PO63P132885 PO63P133468 PO63P133817	
84.010	S010A080008 S010A110008 S010A120008 S010A130008	Title I Grants to Local Educational Agencies
84.027, 84.173	H027A110022 H027A120022 H027A130125 H173A110025 H173A120025 H173A130025	Special Education Cluster (IDEA)
84.367	S367A110007 S367A120007 S367A130007 S367B100008 S367B110008 S367B120008	Improving Teacher Quality State Grants
S-84.395	S395A100007	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
S-84.412	S412A120006	Race-to-the-Top Early Learning Challenge
93.074 (93.069/93.889)	2U90TP316980-11 1U90TP000518-01 5U90TP000518-02 5U90TP316980-10 0901DEBTHP 1001DEBTHP	Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements

CFDA Number	Federal Award Number	Program Name
	1101DEBTHP 316980BT10 90TP316980	
93.268	1H23IP000740-01 5H23IP000740-02 OCCH322567	Immunization Cluster
93.283	000061SP12 UDP000823A USO000061A 1U58DP003870-01 2U58DP001960-06 3U50CI000877-02S5 5U50CK000267-02 5U58DP001960-05 5U58DP003870-02 5U58DP002037-04 5U58DP002037-05 5U58SO000061-03 5UR3DD000819-02 5UR3DD000819-03	Centers for Disease Control and Prevention Investigations
93.525	HBEIE0089A HBEIE130142 HBEIE140196-01-00	Affordability Care Act Exchanges
93.558	1102DETANF 1202DETANF 1302DETANF 1402DETANF	Temporary Assistance for Needy Families Cluster
93.563	1204DE4005 1304DE4005 1404DE4005	Child Support Enforcement
93.568	G-12B1DELIEA G-13B1DELIEA G-14B1DELIEA	Low-Income Home Energy Assistance Program
93.575, 93.596	1101DECCDF 1201DECCDF 1301DECCDF	Child Care Cluster

CFDA Number	Federal Award Number	Program Name
93.658	1201DE1401 1301DE1401 1401DE1401	Foster Care Title IV-E
93.775, 93.777, 93.778	05-1305DEIMPL 05-1305DEINCT 05-1405-DE-5000 05-1405-DE-5002 1205DE5000 1305DE5000 1305DE5001 1305DE5002-0275G 1301DE5050 1401DE5050 XIX-ADM13 XIX-ADM14 XIX-MAP13 XIX-MAP14 HIT-IMP14 HIT-INCTPAY14 275-151600027985	Medicaid Cluster
93.917	12X07HA00081 2X07HA00081-23-00 2X07HA00081-24-00	HIV Care Formula Grants
93.959	12B1DESAPT 3B08TI010009-13S1	Block Grants for the Prevention and Treatment of Substance Abuse
96.001	04-12-04DED100 04-13-04DED100 04-14-04DED100	Disability Insurance/ SSI Cluster

(j) Dollar threshold used to distinguish between Type A and Type B programs: **$6,694,031.**

(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:*

Six findings related to the basic financial statements for the year ended June 30, 2014 were reported in accordance with *Government Auditing Standards* by KPMG LLP. See ***Section 2*** of the Schedule of Findings and Questioned Costs for items **2014-001 to 2014-006**.

(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

2014-001. OVERSTATEMENT OF UNEMPLOYMENT INSURANCE TAX RECEIVABLES (MATERIAL WEAKNESS)

Condition

The Division of Unemployment Insurance (UI) calculates its allowance for doubtful accounts on tax receivables by multiplying uncollectible percentages to its aging category. The spreadsheet used to support UI's tax allowance for doubtful accounts excluded nearly $34 million in gross tax receivables from the various aging categories and management failed to identify this unaccounted portion during their review of the calculation. This resulted in an audit adjustment to increase the allowance for doubtful account on tax receivables by $9.9 million.

Criteria

According to the Governmental Accounting Standards Board (GASB) 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 generally accepted accounting principles (GAAP) and that the State's assets are appropriately safe-guarded.

Cause

UI does not have adequate processes in place to properly assess accuracy and completeness of the allowance for doubtful accounts.

Effect

Due to the weaknesses in the processes used to calculate allowance for doubtful accounts and the reliance on the audit process to detect and correct such errors, material misstatements to the financial statements could go undetected.

Recommendation

We recommend that management establish review procedures over the completeness and accuracy of all allowance for doubtful balances. The review process should also include an evaluation of the reasonableness of the uncollectible percentages utilized in calculating the allowance for doubtful accounts based upon UI's historical collection efforts.

Views of Responsible Officials

We agree and procedures will be put into place to ensure completeness and accuracy of the allowance for doubtful accounts and an evaluation will be done to determine the allowance percentages utilized are reasonable.

2014-002. OVERSTATEMENT OF UI PENALTY AND INTEREST LIABILITIES (SIGNIFICANT DEFICIENCY)

Condition

The Special Administration Fund of the Department of Labor was created in the State Treasury as a special fund to retain all penalty and interest monies collected by the Division of Unemployment Insurance (UI). These monies are to be used by the Delaware Department of Labor for payment of administrative costs not recoverable by federal grants, repayment of interest on advances from the federal government, and various other administrative costs solely in support of UI. Since these monies are ultimately maintained in a fund that is held outside of UI, the penalty and interest amounts expected to be collected are accounted for as an agency type transaction with a reciprocal liability reported, which means total assets and liabilities for these transactions will be the same.

When penalty and interest amounts are recognized as receivables in UI, management evaluates its collectability based upon the collection history of penalty and interest receivables adjusts its allowance for doubtful accounts accordingly. As of December 31, 2014, total liabilities for penalty and interest amounts to be paid to the Special Administrative Fund were $6.2 million higher than its related assets. This variance is attributed to adjustments to the allowance for doubtful accounts being reflected as a bad debt expense rather than as an offset to its reciprocal liability.

Criteria

According to the Governmental Accounting Standards Board (GASB) 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 generally accepted accounting principles (GAAP) and that the State’s assets are appropriately safe-guarded.

Cause

There are no procedures in place to monitor that the assets and liabilities associated with penalty and interest amounts are in balance.

Effect

Variances between the assets and liabilities of these accounts will improperly impact the operating results of UI.

Recommendation

We recommend that management establish a process to monitor the penalty and interest asset and liability accounts and inspect any variances identified.

Views of Responsible Officials

We agree and procedures will be performed to monitor these accounts on a monthly basis and adjust as necessary.

2014-003. VALUATION OF ESCHEAT INVESTMENTS (SIGNIFICANT DEFICIENCY)

Condition

Escheat property are predominantly comprised of any forgotten, lost or uncashed checks, stocks, bonds, or dividends that have been turned over to the State because the owner cannot be found. The State performs due diligence to locate the owner of the stock shares, but if the owner of the shares cannot be found, the escheat property is liquidated and held by the State. The State estimates an escheat liability reported in the General Fund, which is determined based on a five year rolling average of historical escheat claims paid.

The State of Delaware receives investments from either a transfer agent or another third party when they are unable to locate the owner of the investments. In the vast majority of cases, these investments are actively traded on a major stock exchange, which means for these investments ascertaining the market value is a straightforward process that produces unambiguous results. Interspersed among the thousands of actively traded securities reported are isolated cases of thinly traded or de-listed securities. During 2014, a transfer agent provided the State such an investment with an estimated value of one dollar per share totaling $19.1 million. The transfer agent did not provide any additional valuation documentation to support the value of this investment and the State did not perform an independent valuation review before recording it as an escheat asset. Through audit investment price testing procedures, it was determined that the value of this investment should be zero since the State was unable to provide any supporting documentation for its value. This valuation correction is attributed to the State not reassessing the value of the investment prior to recording it as an asset.

Criteria

According to the Governmental Accounting Standards Board (GASB) 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 generally accepted accounting principles (GAAP) and that the State’s assets are appropriately safe-guarded.

Cause

Prior to 2013, the State liquidated securities received on a first-in, first-out basis routinely throughout the year. This process allowed the State to accurately record the value of the escheated investments received from transfer agents. However, this process changed where the State does not liquidate the investment until it completes its own due diligence process to locate the securities’ rightful owner. During this time, investments are reported as assets at the value provided by the transfer agent, and there is no other procedure in place to reassess the value of all escheat investments received prior to the State accepting ownership of the investment and recording it as an asset.

Effect

The value of escheat investments may be either overstated or understated.

Recommendation

We recommend that management establish a process to value all escheat investment securities received prior to reporting an asset.

Views of Responsible Officials

We agree with this finding. The process of the State engaging in its own due diligence is a relatively new procedure that began in 2013. The State implemented this procedure when, during the course of an examination of transfer agents, it found that not every transfer agent was engaging in a good faith effort to locate the owners of inactive accounts. Upon learning of these practices, the State put in place its own due diligence process. This meant that the State was now holding securities while it attempted to locate the securities' rightful owners. Prior to adopting this practice, the State liquidated securities on a FIFO basis. This meant that worthless securities were identified almost immediately when, through the course of the attempted liquidation, such securities were determined to be, in fact, worthless.

The State is currently in the process of working with its contractor and the bank to develop procedures that systematically identify thinly-traded or delisted securities thereby allowing such securities to be properly valued or, if necessary, remove when reporting investment assets.

2014-004. OVERSTATMENT OF EXPENSES AND UNDERSTATEMENT OF ACCOUNTS PAYABLE (SIGNIFICANT DEFICIENCY)

Background

Delaware Department of Transportation (DelDOT) receives invoices for services incurred or products received throughout the fiscal year. When these invoices are received, they are recorded in the general ledger as expenses. Each invoice is recorded to a specific account code based on the nature of the invoice. Goods and services are received near fiscal year end where DelDOT does not receive the related invoice until after year-end. Since DelDOT' s basis for reporting information included in the financial statements is the accrual basis accounting which is in accordance with Generally Accepted Accounting Policies (GAAP), these expenses should be recorded as activity during the year despite the invoices being received after year-end.

Condition

Expenses:

We identified 8 invoices in a sample of 91 invoices tested where the invoice amounts were recorded incorrectly to current year expenses. The services occurred over two fiscal years and the invoices were not properly pro-rated between fiscal years 2013 and 2014, resulting in an overstatement of expenses. The 8 samples errors totaled $2,219,966, and the invoice dates fell within the first two months of the fiscal year. Of the total value of the population of $287,398,101, we tested $41,543,589.

Accounts Payable:

We identified 5 invoices out of our sample of 14 invoices tested where the services incurred were over 2 fiscal years were not properly pro-rated between fiscal years 2014 and 2015, resulting in an understatement of accounts payable. The 5 sample errors totaled $8,357,114 and the invoice dates fell within the last two months of the fiscal year. Of the total value of the population of $92,601,144, we tested $33,892,463.

Criteria

DelDOT's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, expenses are recorded at the time good or services are received, regardless of the timing of the receipt of invoices or the related cash flows. In accordance with GASB No. 34, "Revenues, expenses, gains, losses, assets, and liabilities resulting form exchange and exchange-like transactions should be recognized when the exchange takes place."

Cause

Expenses and Accounts Payable:

DelDOT records invoices based on the date in which the invoice is received rather than the dates the services were incurred or products received, which is a Non-GAAP Policy. While DelDOT encourages vendors to provide invoices prior to year-end so they can be processed for payment, many vendors still provide their invoices on a after fiscal year-end which then are recorded until the following fiscal year.

Effect

Expenses:

The 8 transactions relating to fiscal year 2013 activity that were recorded to fiscal year 2014 expenses resulted in an overstatement of DelDOT expenses by $2,219,966.

Accounts Payable:

The 5 transactions relating to fiscal year 2014 activity that were recorded in fiscal year 2015 resulted in an understatement of DelDOT accounts payable by $8,357,114.

Recommendation

We recommend that the Department put in place policies and procedures to ensure that transactions that occur at the end of the fiscal year are recorded in the proper period based on the date goods or service were provided.

Views of Responsible Officials

DelDOT strives to complete and approve all expense transactions for the period in which they occurred. It has been a struggle to obtain invoices for supplies and/services from the vendor in a timely manner. In an effort to avoid the pro-ration of expenditures across fiscal years, DelDOT has requested vendors’ bill every two weeks instead of the standard thirty (30) days during the last month of each fiscal year. DelDOT will continue to research ways to diminish this problem which will include using queries and reports to ensure any items in this category are addressed. The agency will also work with the Division of Accounting to ensure there is consistency within how other state agencies tackle this issue.

2014-005. LACK OF RECONCILIATIONS OF DIVISION OF MOTOR VEHICLE REVENUES (SIGNIFICANT DEFICIENCY)

Background

One of the sources of revenue for DelDOT is the Division of Motor Vehicle (DMV) revenue, which is initiated when a customer enters one of the DMV locations to register a vehicle or pay a fee. The customer completes the appropriate forms, and the Cashier at the DMV location enters the customer information into the Motor Vehicle and License System (MVALS), which calculates the appropriate fee the customer is to pay. On a daily basis for each location, a Daily Cash Report is created to reconcile the daily total for cash, credit cards, and checks for each cashier. Any discrepancies greater than $5 are investigated. The completed Daily Cash Reports are provided to the Accounting Specialist who reconciles the Daily Cash Reports to the MVALS system report for each location. The Accounting Specialist ensures that any shortages/overages greater than $5 are reasonable explained. A second accounting specialist then reconciles the MVAL totals to the related bank statement.

Condition

During our review of 53 DelDOT DMV revenue reconciliations selected, we identified 28 samples where the credit card portion of the reconciliation was not performed and 14 samples where reconciliations performed did not agree to the bank statements.

For all 42 exceptions, DelDOT was able to re-perform the reconciliations correctly after the fact after the audit identified the lack of completed reconciliations

Criteria

The COSO Internal Controls Integrated Framework – 1992, identified the following regarding control activities and monitoring controls.

- Segregation of Duties—Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions. For instance, responsibilities for authorizing transactions, recording them and handling the related asset are divided.

In carrying out its regular management activities, operating management obtains evidence that the system of internal control continues to function. When operating reports are integrated or reconciled with the financial reporting system and used to manage operations on an ongoing basis, significant inaccuracies or exceptions to anticipated results are likely to be spotted quickly.

Cause

The DMV department experienced significant turnover during the fiscal year and did not properly assign new staff to perform the reconciliations and new supervisors to review the reconciliations.

Effect

Without performing the needed DMV revenue reconciliations, misstatements to the financial statements could go undetected.

Recommendation

We recommend that DelDOT put into place procedures to ensure all reconciliations of cash and credit card transaction are reconciled timely and that staff are cross trained so controls are still completed during transitional changes within staffing.

Views of Responsible Officials

Employee turnover is a challenge that DMV Financial Services continually faces and continues to address. Currently, DMV has two individuals who are able to perform the credit card reconciliations. The objective is to have at least three individuals who can complete this process in its entirety at all times, if necessary. The target date for this cross-training to be completed, is December 31, 2014. DMV is also exploring different approaches to performing the credit card reconciliation in an effort to improve the efficiency of this process.

As of January 1, 2015, the roles in this process will be segregated and defined as follows:

- The printing of necessary daily reports will be assigned to one employee and distributed to the DMV Accountant.
- The verification of ‘daily lane work’ will be assigned to a separate employee who will also perform the credit card reconciliation on a daily basis.
- The Fiscal Administrative Officer will review the reconciliations weekly.

It should be noted that as staff shortages occur, deviation from these procedures may be necessary in order to maintain the timely completion of the credit card reconciliation process.

2014-006. SEGREGATION OF DUTIES/TIMELINESS OF FINANCIAL REPORTING, RECORDKEEPING AND RECONCILIATIONS (SIGNIFICANT DEFICIENCY)

Condition

From December 2013 through June 2014, as a result of significant turn-over, a lack of segregation of duties existed in the Delaware Public Employees' Retirement System (DPERS) finance function. The Cash/Debt manager was in a position to review, record and reconcile several elements within the financial reporting process including investments and journal entries.

Criteria

The Internal Control-Integrated Framework (COSO Report), provides a framework for organizations to design, implement, and evaluate control that will facilitate achieving the fundamental and essential objectives of any entity including the reliability of financial and management reports.

The following characteristics of the COSO Framework represent the relevant criterion in the Control Activities element:

Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achievement of the entity's objectives.

- Operating policies and procedures clearly written and communicated.
- Adequate segregation of duties provided between performance, review, and recordkeeping of a task.

Cause

Staff turnover at two Investment Financial Manager positions and one Management Analyst position created voids in the control environment for several months. This represented a 75% staff turnover in the finance department

Effect

The lack of personnel led to extensive delays in the performance of certain accounting and reconciliation procedures and the effectiveness of review controls was undermined by the lack of an independent reviewer. The departure of key financial reporting personnel also created a loss of knowledge on how procedures were completed.

Recommendation

We recommend that management implement a practice of cross-training for individuals responsible for separate segments of the financial reporting process, and that year end procedures be documented at a more granular level to provide continuity when there is turn-over in the DPERS Finance department.

Views of Responsible Officials

Pension Office Management did not implement an effective process for the orderly transition of job duties within the Investment and Accounting Section, which became especially problematic when three vacancies occurred in the section, and the manager was not prepared to handle their duties. Critical duties, including the reconciling of monthly balances with the Custodian bank and First State Financials, continued during the transition period, with all internal controls in place. However, there was a delay in the monthly and year end processes for inputting data into the General Ledger system due to the time required for the remaining personnel and the newly hired staff to be trained in the General Ledger process. In September, the Deputy Pension Administrator was assigned the task to complete the financials, but the late start caused a delay.

Because of the several unique functions of the Investment and Accounting Section, it is not possible to develop expertise for their work in other sections of the office. In the future, besides having detailed procedures in place for the various processes and cross-training all staff upon hire, each position will be reviewed to identify critical duties for each position and the frequency of that duty (such as daily, weekly, monthly, quarterly, etc.). This critical duty list will be formally reviewed twice each year. The first review, on or before June 1st, will be updated for any additions to the job responsibilities, audit scope, and the second, on or before January 1st, will be completed as part of each employee's performance review. A copy of this list will be maintained with the Office personnel files. If a position were to become vacant the critical duties could be immediately reviewed and assigned to an appropriate staff member. The Manager and/or a second member of the Section shall also be trained to have some familiarity with the critical duty list of the other members of the Section.

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, 2014

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.

TABLE OF CONTENTS

Reference Number:	2014-007
Related Prior Year Finding:	2013-001
State Department Name:	Department of Education
School Name:	Delaware Technical Community College
Federal Agency:	U.S. Department of Education
Federal Program:	Student Financial Assistance Cluster
CFDA Number:	84.007, 84.033, 84.063, 84.268
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Eligibility/IT
Control Finding:	Yes
Compliance Finding:	No
Scope Limitation:	No

Condition:

During our testing, we identified IT general control deficiencies in Delaware Technical Community College's (DTCC) Banner applications, Solaris operating systems and Oracle databases. DTCC tracks the eligibility of its students within Banner which uses an Oracle database to store the application data. The application and database are housed on a Solaris operating system. The IT deficiencies are as followed:

Control:

Procedures exist and are followed to ensure timely action relating to requesting, establishing, issuing, suspending and closing user accounts.

Exception:

For three of the twenty-five terminated users reviewed access removal requests were not submitted timely by Human Resources to the IT department to remove access to the Banner application. Access removal took 3-7 months for the three terminated users. The three users were terminated prior to monthly IT audits which were implemented on 11/1/13 as a result of last year's finding.

Criteria:

Control Exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Cause:

IT management was still in process of implementing policies and procedures in relation to last year's finding.

Effect:

The IT general control weaknesses could result in the unauthorized access to the systems. Without adequate IT general controls, the systems utilized for the SFA program could be inappropriately accessed which could allow unauthorized entries into the system without management's knowledge or oversight.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DTCC continue to enforce their formal policy for communication of terminated employees to the IT department to suspend/remove user accounts.

Views of Responsible Officials:

Agency Contact Name: David Dill, Applications Director

Agency Contact Phone Number: 302-857-1643

Corrective Action Plan:

The college's IT department has facilitated the exchange of a monthly report from Human Resources that identifies terminated employees from PHRST (PER-015). This report is reviewed monthly as an auditing tool to verify all inactivation requests have been received from Human Resources and processed in Banner.

A PHRST report of all active employees college-wide is generated and reviewed quarterly for user account correlation.

An internal audit of INB (Interactive Native Banner) user access is conducted by the functional area users (Student Module, Accounts Receivable, Admissions and Financial Aid) every May and November.

Anticipated Completion Date:

November 6, 2013

Reference Number: 2014-008
Related Prior Year Finding: N/A
State Department Name: Delaware Department of Education
School District Name (if applicable): All School Districts
Federal Agency: U.S. Department of Education
Federal Program: Child and Adult Care Food
Special Education Cluster
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act
Race to the Top - Early Learning Challenge
Improving Teacher Quality State Grants
Title I, Part A Cluster
CFDA Number: 10.558
84.027, 84.173
S-84.395
S-84.412
84.367
84.010
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: No
Compliance Requirement: IT
Control Finding: Yes
Compliance Finding: No
Scope Limitation: No

Condition:

During our testing, we identified IT general control deficiencies in Delaware's Student Information System (Delsis) applications, operating systems and databases. Delsis is the statewide pupil accounting system used by Delaware's Department of Education (DOE) and the local school districts to track and monitor student enrollment and other information such as demographic statistics and student reading and mathematics data throughout the year. The IT deficiencies are as followed:

Control:

Requests for program changes are standardized, documented, and subject to formal change management procedures. Changes are tested and approved by appropriate levels of management prior to implementation into production.

Exception:

There are no formal DOE change management processes or procedures documented to ensure that change requests are completed, tested, reviewed, and approved as needed prior to changes being implemented into production.

Control:

Emergency change requests are documented and subject to formal change management procedures.

Exception:

There are no formal DOE change management processes or procedures documented to ensure that emergency changes are approved prior to implementation.

Control:

Responsibility for developing and migrating changes is segregated.

Exception:

There are no formal DOE change management processes or procedures documented to ensure the ability to develop and move changes to production is limited to a restricted number of individuals, and that a separate individuals perform the change development, testing, and implementation.

Criteria:

Control Exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Cause:

The exceptions are the result of not having formal change management policies defined and documented for implementing Delsis system changes that help mandate the enforcement of standard change management controls including appropriately documenting, testing and approving changes prior to implementation into production.

Effect:

The IT general control weaknesses could result in the unauthorized changes being implemented to the system or implementing changes that have not been validated. Without adequate IT general controls in place related to change management, the Delsis system utilized by DOE and the local school districts could be inappropriately changed which could lead to further issues with the system.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DOE IT establish a formal policy for activities related to change management.

Views of Responsible Officials:

Agency Contact Name: Kim Wheatley/Cathy Wolfe

Agency Contact Phone Number: 302 735-4040

Corrective Action Plan:

The technology department for DDOE concurs with this finding. DDOE is currently reviewing change management processes to determine the most appropriate system to put in place. Once an acceptable system is identified, testing commence and then the process will be implemented within a six month period.

Anticipated Completion Date:

September 2015

Reference Number: 2014-009
Related Prior Year Finding: 2013-002
State Department Name: Department of Education
School District Name (if applicable): Appoquinimink, Brandywine, Caesar Rodney, Capital, Christina, Colonial, Indian River, Seaford and Smyrna
Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies, Improving Teacher Quality, Special Education Cluster, State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
CFDA Number: 84.010, 84.027, 84.173, 84.367, S-84.395
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: Yes
Compliance Requirement: Allowability (effort reporting)
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

Title I

During our testing of a sample of sixty-five payroll expenditures totaling $111,686, we found the following:

- Two payroll expenditures totaling $4,232 charged to the program at the Appoquinimink and Christina School Districts were missing time and effort reports.
- Three payroll expenditures of $4,399 for 100% federally funded at the Brandywine School District had certifications that were a year or greater and therefore did not include proper semi-annual date ranges.

Eighteen of the time and effort reports reviewed were not dated, therefore we were unable to determine whether the charges were an after-the-fact distribution of the actual activity.

Payroll expenditures totaled $28,662,015 and program expenditures were $39,301,556.

A summary of the above exceptions by school district are summarized below.

Type of Finding		
Missing Time & Effort Report	***# of Exceptions***	***Dollar Amount of Exceptions***
Appoquinimink School District	1	$2,692
Christina School District	1	$1,540
	2	$4,232
Semi-Annual Certifications for 100% Federally Funded Employee Did Not Include Proper Semi-Annual Date Ranges	***# of Exceptions***	***Dollar Amount of Exceptions***
Brandywine School District	3	$4,399

Improving Teacher Quality

During our testing of a sample of sixty-five payroll expenditures totaling $110,003, we found the following:

- Two payroll expenditures totaling $2,749 charged to the program at the Colonial School District were missing time and effort reports.
- Payroll expenditures of $3,012 charged to the program for one employee at the Red Clay School District did not agree to the percentage approved on the time and effort report by a difference of $1,380 (overcharge).
- One payroll expenditure of $2,398 charged to the program at the Christina School District had a semi-annual certification that was not signed or that was signed prior to the end of the period being charged.
- Six payroll expenditures totaling $14,490 charged to the program at the Capital and Red Clay School Districts were signed over three months from the period charged.
- Seventeen of the time and effort reports reviewed were not dated, therefore we were unable to determine whether the charges were an after-the-fact distribution of the actual activity.

Payroll expenditures totaled $7,228,517 and total program expenditures were $8,838,979.

A summary of the above exceptions by school district are summarized below.

Type of Finding			
Missing Time & Effort Report	***# of Exceptions***	***Dollar Amount of Exceptions***	
Colonial School District	2	$2,749	
Salary Does Not Agree to Approved Percentages	***# of Exceptions***	***Dollar Amount of Sampled Item***	***Exception Difference***
Red Clay Consolidated School District	1	$3,012	$1,380
Semi-Annual Certification Unsigned or Signed Before End of Period Being Charged	***# of Exceptions***	***Dollar Amount of Exceptions***	
Christina School District	1	$2,398	
Time & Effort Signed Over 3 Months After the Period Charged	***# of Exceptions***	***Dollar Amount of Exceptions***	
Capital School District	5	$11,478	
Red Clay School District	1	$3,012	
	6	$14,490	

Special Education Cluster

During our testing of a sample of sixty-five payroll expenditures totaling $117,895, we found the following:

- Two payroll expenditures totaling $2,276 charged to the program at the Caesar Rodney and Christina School Districts were missing a time and effort reports.

- Payroll expenditures of $5,388 charged to the program for three employees at the Caesar Rodney, Smyrna and Indian River School Districts did not agree to the percentages approved on their time and effort reports by a net difference of $3,448 (undercharge).
- One payroll expenditure of $1,003 charged to the program at the Caesar Rodney had a semi-annual certification that was not signed by either the employee or the supervisor or that were signed prior to the end of the period being charged.
- Two payroll expenditures totaling $2,793 charged to the program at the Capital and Indian River School Districts were signed over three months from the period charged.
- One payroll expenditure totaling $1,003 charged to the program at the Caesar Rodney School District did not have 100% of their time allocated.
- Twenty-three of the time and effort reports reviewed were not dated, therefore we were unable to determine whether the charges were an after-the-fact distribution of the actual activity.

Payroll expenditures totaled $20,552,797 and program expenditures were $30,386,711.

A summary of the above exceptions by school district are summarized below.

Type of Finding			
Missing Time & Effort Report	***# of Exceptions***	***Dollar Amount of Exceptions***	
Caesar Rodney School District	1	$955	
Christina School District	1	$1,321	
	2	$2,276	
Salary Does Not Agree to Approved Percentages	***# of Exceptions***	***Dollar Amount of Sampled Item***	***Exception Difference***
Caesar Rodney School District	1	$1,003	($895)
Smyrna School District	1	$3,819	$126
Indian River School District	1	$566	($2,679)
	3	$5,388	($3,448)
Semi-Annual Certification Unsigned or Signed Before End of Period Being Charged	***# of Exceptions***	***Dollar Amount of Exceptions***	
Caesar Rodney School District	1	$1,003	
Time & Effort Signed Over 3 Months After the Period Charged	***# of Exceptions***	***Dollar Amount of Exceptions***	
Capital School District	1	$1,794	
Indian River School District	1	$999	
	2	$2,793	
Time & Effort Did Not Have 100% of Employees' Time Allocated	***# of Exceptions***	***Dollar Amount of Exceptions***	
Caesar Rodney School District	1	$1,003	

State Fiscal Stabilization Fund Race-to-the –Top

During our testing of a sample of sixty-five payroll expenditures totaling $156,522, we found the following:

- One payroll expenditure totaling $3,443 charged to the program at the Christina School District was missing a time and effort report.
- Payroll expenditures of $6,242 charged to the program for three employees at the Seaford School District did not agree to the percentages approved on their time and effort reports by a net difference of $5,803 (overcharge).
- Payroll expenditures totaling $8,161 charged to the program at the Capital School District were signed over three months from the period charged.
- Seven of the time and effort reports reviewed were not dated, therefore we were unable to determine whether the charges were an after-the-fact distribution of the actual activity.

Payroll expenditures totaled $12,196,831 and program expenditures were $24,936,030.

A summary of the above exceptions by school district are summarized below.

Type of Finding			
Missing Time & Effort Report	***# of Exceptions***	***Dollar Amount of Exceptions***	
Christina School District	1	$3,443	
Salary Does Not Agree to Approved Percentages	***# of Exceptions***	***Dollar Amount of Sampled Item***	***Exception Difference***
Seaford School District	3	$6,242	$5,803
Time & Effort Signed Over 3 Months After the Period Charged	***# of Exceptions***	***Dollar Amount of Exceptions***	
Capital School District	4	$8,161	

A summary of the major programs with payroll control and compliance exceptions are summarized below.

Title I Program

	# of Items	***Dollar Amount of Items***
Total Payroll Expenditures	40,199	$28,662,015
Total Program Expenditures	46,920	39,301,556
Payroll Sample	65	111,686
Payroll Control Exceptions	5	8,631
Payroll Compliance Exception	5	8,631

Improving Teacher Quality Program

	# of Items	*Dollar Amount of Items*
Total Payroll Expenditures	17,370	$7,228,517
Total Program Expenditures	18,562	8,838,979
Payroll Sample	65	110,002
Payroll Control Exceptions	9	18,005
Payroll Compliance Exception	9	18,005

Special Education Cluster

	# of Items	*Dollar Amount of Items*
Total Payroll Expenditures	45,438	$20,552,797
Total Program Expenditures	52,180	30,386,711
Payroll Sample	65	117,895
Payroll Control Exceptions	7	8,517
Payroll Compliance Exception	7	8,517

State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants

	# of Items	*Dollar Amount of Items*
Total Payroll Expenditures	20,990	$12,196,831
Total Program Expenditures	24,708	24,936,030
Payroll Sample	65	136,362
Payroll Control Exceptions	8	17,407
Payroll Compliance Exception	8	17,407

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled.
  (OMB Circular A-87, Attachment B.8.h.6)

Cause:

The school districts cited above did not maintain proper and timely effort reporting for employees funded by federal programs as additional monitoring procedures appear necessary to ensure the school districts are fully compliant with time and effort reporting.

Effect:

The program is missing time and effort reports to support some of their charges or not properly ensuring the percentage charged matches to the respective employee’s time and effort reports.

Questioned Costs:

Missing Time & Effort Report	***# of Exceptions***	***Dollar Amount of Exceptions***
Title I Program	2	$4,232
Improving Teacher Quality Program	2	$2,749
Special Education Cluster	2	$2,276
State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants	1	$3,443

Salary Does Not Agree to Approved Percentages	***# of Exceptions***	***Dollar Amount of Sampled Item***	***Exception Difference Over (under) charge***
Title I Program	-	-	-
Improving Teacher Quality Program	1	$3,012	$1,380
Special Education Cluster	3	$5,388	($3,448)
State Fiscal Stabilization Fund – Race-to-the-Top Incentive Grants	3	$6,242	$5,803

Recommendation:

We recommend that the State Department of Education and the above school districts continue to hold training sessions to educate the employees on the importance of effort reports, require management review and sign-off on completeness of the effort reports to insure the State maintains properly prepared and signed personnel activity reports (effort reports) for all employees who work on multiple programs or obtain semi-annual certifications for employees that have been solely engaged in activities supported by one funding source.

Views of Responsible Officials:

Agency Contact Name: Kim Wheatley/Cathy Wolfe

Agency Contact Phone Number: 302 735-4040

Corrective Action Plan:

DOE has and will continue to provide technical assistance and training to LEAs to reduce and/or eliminate the number of time and effort findings statewide. DOE would like to note that while the auditors have highlighted time and effort reports that were not dated, or signed within a 3 month period of time, there is currently no federal regulation that requires the dating of time and effort reporting, nor the timing of signatures on time and effort reporting.

Anticipated Completion Date:

Ongoing

Reference Number:	2014-010
Related Prior Year Finding:	N/A
State Department Name:	Department of Education
School District Name (if applicable):	Laurel School District
Federal Agency:	U.S. Department of Education
Federal Program:	Race-to-the-Top Incentive Grants Recovery Act
CFDA Number:	S-84.395
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	Yes
Compliance Requirement:	Allowability (non-payroll)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

In a sample of sixty-five nonpayroll transactions totaling $3,224,148, one transaction for the Laurel School District totaling $8,459 was approved, but considered questionable and may not be allowable for the Race-to-the-Top program, as costs consisted of exercise equipment for a school fitness center. The School District could not provide sufficient and appropriate evidence that such costs are considered necessary and reasonable for the proper and efficient performance of the Race-to-the-Top award. Nonpayroll expenditures for the Program totaled $12,739,198 and total program expenditures totaled $24,936,030.

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 objectives of Race to the Top are to encourage and reward States and LEAs that are creating the conditions for education innovation and reform; achieving significant improvement in student outcomes, including making substantial gains in student achievement, closing achievement gaps, improving high school graduation rates and ensuring student preparation for success in college careers; and implementing ambitious plans in the four assurance areas.

In addition, to be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1 & C.2):

a. Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)

b. Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.)

c. Be authorized or not prohibited under State or local laws or regulations.

d. Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

g. Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.

h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.

i. Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.)

j. Be adequately documented.

2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to:

a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.

Cause:

A rationale detailing the academic benefit of the equipment was not included in the supporting documentation for the transaction.

Effect:

Costs could be charged to the Program which are not allowable and could result in the Program having to return grant money to the U.S. Department of Education.

Questioned Costs:

The questioned costs were $8,459.

Recommendation:

The Delaware Department of Education should reinforce to the school districts what costs are allowable under the Race-to-the-Top program and ensure that proper approvals and appropriate supporting documentation is prepared and maintained.

Views of Responsible Officials:

Agency Contact Name: Kim Wheatley/Cathy Wolfe

Agency Contact Phone Number: 302 735-4040

Corrective Action Plan:

The Laurel School District provided a copy of their approved Partnership Zone (PZ) School Plan and Budget, which included plans to “Develop parent resources room with computer access/fitness center with fitness classes after school” and “Implement Fit to Achieve Initiative”. Given these items were part of their approved plan, DOE believes this expenditure was an allowable cost under the PZ School budget.

Anticipated Completion Date:

N/A

Reference Number: 2014-011
Related Prior Year Finding: 2013-011
State Department Name: Department of Education
School District Name (if applicable): All School Districts
Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Educational Agencies, Special Education Cluster, State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants Recovery Act
CFDA Number: 84.010, 84.027, 84.173, S-84.395
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: Yes
Compliance Requirement: Equipment and Real Property Management
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

The State-wide fixed asset register within FSF identifies equipment with a purchase price of at least $25,000 that was acquired with federal funds. However, not all the school districts include detail of the equipment by each individual federal award (i.e. CFDA #) for equipment purchases between $5,000 and $25,000.

Although many of the programs at the State have equipment purchases that are not significant to the overall federal programs, the three major programs cited (Title I, Special Education, and Race to the Top) had material capital outlay expenditures for equipment using federal awards. The federal funds with transaction amounts over $5,000 coded to capital outlays - equipment over the last three fiscal years (July 1, 2011 to June 30, 2014) were $1,998,140 for Title I, $1,874,294 for Special Education, and $665,836 for Race to the Top. While the vast majority of those expenditures do not appear to contain equipment purchases over $5,000 per unit, a further investigation must be done for each school district to ensure all equipment purchases over $5,000 per unit, as applicable, have been properly incorporated into a comprehensive rollforward of equipment and real property purchases and disposals during the years.

Control Exception:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The State of Delaware’s Budget and Accounting Policy Manual, Section 13.2.3, states, “The federal threshold for asset tracking is $5,000, which is lower than the State’s CAPITAL asset threshold. Agencies are responsible for ensuring that all assets valued between $5,000 and $25,000 that are purchased with federal funds are properly accounted for in the agency’s NOCAP records. Assets valued above $25,000 that are purchased with federal funds are maintained in the State’s CAPITAL asset listings.”

Compliance Exception:

Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of $5000 or more per unit. However, consistent with a non-Federal entity’s policy, lower limits may be established.

A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State.

Local governments and Indian tribes shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. A-102 Common Rule requires that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. When equipment with a current per unit fair market value of $5000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.

Cause:

While there are policies and procedures established by the State Department of Education, not all the School Districts consistently adhere to the policies and procedures to ensure the Program's maintain equipment rollforwards from year to year as well as determine whether the cumulative equipment balances are material to the program.

Effect:

The Programs could be purchasing or disposing of equipment in a manner different than what is required by federal regulations.

Questioned Costs:

Questioned costs associated with this finding are not determinable.

Recommendation:

We recommend the State Department of Education monitor compliance with their fixed asset policies and procedures as well as conduct a biannual inventory to validate the accuracy of the lists. This could be accomplished with coding to FSF property records or ensuring all districts maintain a separate subsidiary fixed asset ledger.

Views of Responsible Officials:

Agency Contact Name: Kim Wheatley/Cathy Wolfe

Agency Contact Phone Number: 302 735-4040

Corrective Action Plan:

Many districts utilize the Fixed Assets Module within the First State Financials System (FSF) to track equipment over $5,000 dollars. DOE has found that many districts are coding expenditures to capital outlay, that do not meet the threshold of $5,000 per individual unit, but rather the cumulative purchase is greater than $5,000. In example, for the current year, DOE performed a review of all expenditures charged to capital outlay and found only one instance (statewide) in which the purchase was for one piece of equipment over $5,000. That instance occurred within the Appoquinimink School District, and the district provided a copy of the FSF tracking screen shot to both the auditors and DOE. Additionally, DOE staff is currently reviewing prior year expenditures to perform the same analysis for the periods covered by this finding.

DOE would also like to note that technical assistance has been provided, and the State maintains requirements for all state agencies pertaining to equipment inventory.

Anticipated Completion Date:

Technical assistance – completed.
Analysis of prior year expenditures – July 2015.

Reference Number:	2014-012
Related Prior Year Finding:	2013-009
State Department Name:	Department of Education
School District Name (if applicable):	Cape Henlopen School District, Colonial School District, Laurel School District
Federal Agency:	U.S. Department of Education
Federal Program:	Special Education Cluster
CFDA Number:	84.027, 84.173
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	Yes
Compliance Requirement:	Level of Effort (Maintenance of Effort)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	Yes

Condition:

Based on a review of the LEA (school districts) MOE calculations (Excess Cost for IDEA template) included in the 2014 LEA's Consolidated Grant Applications for each of the nineteen school districts, we identified three school districts which had both local expenditures that decreased from 2011 to 2012 and a combination of State and local expenditures that decreased from 2011 to 2012. While the Consolidated Grant Application contains a template that is prepopulated with possible reasons for decreases in an LEA's MOE calculation (Financial Item Questions), only one of the three school districts noted above completed this template. Furthermore, similar to the prior year, the rationale and corresponding evidence for the decreases noted were not substantiated by the Delaware DOE to verify whether it was an acceptable allowance. The rationale for expenditure decreases should be substantiated to ensure that these decreases are valid and any required changes to the allocation of Special Education funds can be properly assessed.

The three school districts' effort decreased as follows:

	Local Funds Expended in 2012	*Local Funds Expended in 2011*	*Decrease*	*Total State and Local Funds Expended in 2012*	*Total State and Local Funds Expended in 2011*	*Decrease*
Cape Henlopen SD	$7,552,901	15,317,184	(7,764,283)	$38,768,132	46,083,573	(7,315,441)
Colonial SD	10,714,095	11,941,720	(1,227,625)	37,997,269	38,749,320	(752,051)
Laurel SD	1,050,793	1,286,826	(236,033)	8,571,888	8,784,190	(212,302)

Criteria:

Control exception:

The A-102 Common Rule and its attachments found in 34 CFR 80 requires that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exception:

LEA – LEVEL OF EFFORT

Individual Disability Education Act (IDEA), Part B funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of State and local funds, expended for this purpose by the LEA in the prior fiscal year. Allowances may be made for: (a) the voluntary departure, by retirement or otherwise, or departure for just cause, of special education personnel; (b) a decrease in the enrollment of children with disabilities; (c) the termination of the obligation of the agency, consistent with this part, to provide a program of special education to a particular child with a disability that is an exceptionally costly program, as determined by the State Educational Agency (SEA), because the child has left the jurisdiction of the agency, has reached the age at which the obligation of the agency to provide a free appropriate public education (FAPE) has terminated or no longer needs such program of special education; (d) the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities; or (e) the assumption of costs by the high cost fund operated by the SEA under 34 CFR section 300.704 (20 USC 1413(a)(2); 34 CFR sections 300.203 and 300.204).

Cause:

The Delaware DOE is not adequately reviewing or obtaining appropriate evidence to substantiate acceptable allowances for the LEAs calculations of the IDEA maintenance of effort included in the Consolidated Grant Applications.

Effect:

If the LEAs are not in compliance with Special Education MOE requirements this could impact the amount of IDEA funds that should be available and allocated

Questioned Costs:

Questioned costs associated with the decrease in state and local expenditures for the education of children with disabilities are not determinable.

Recommendation:

We recommend that the DOE carefully review the school districts MOE calculations included within the Consolidated Grant Applications. When the school districts have a decrease in the MOE calculation, the DOE should validate the rationale for the decrease and then make allocation adjustments, as necessary.

Views of Responsible Officials:

Agency Contact Name: Kim Wheatley/Cathy Wolfe

Agency Contact Phone Number: 302 735-4040

Corrective Action Plan:

DDOE reviewed the LEA expenditures that indicated a decrease occurred from prior year expenditures. Out of the three, it was determined that the amount indicated for Cape Henlopen's expenditures was underrepresented due to a financial coding change within DDOE's financial system. Cape Henlopen chose to delineate their expenditures within a series of appropriations rather than group their expenditures within one appropriation. The amount indicated on the consolidated report only represented the expenditures in one appropriation. If the amount was recalculated based on all expenditures in the series of appropriations, Cape Henlopen exceeded last year's spend.

Additionally, based on prior year findings, DOE has been working with USED, Office of Special Education and Rehabilitative Services to correct the methodology used by Delaware to measure and validate LEA Maintenance of Effort. DOE staff worked with USED staff for the better part of calendar year 2014 to address this finding, with a significant amount of communication back and forth. DOE submitted its most recent proposal on January 16, 2015 and has received notification from USED that the proposed methodology is under review and that we will hear back from them in the near future. Pending official approval, no changes have been implemented at this time.

Auditors' Response:

Management did not have the internal control in place to monitor compliance with LOE requirements. The additional analysis per the Corrective Action Plan performed in March 2015 has not been subject to audit.

Anticipated Completion Date:

Once approval is received from USED, DOE will immediately implement the new methodology.

Reference Number: 2014-013
Related Prior Year Finding: N/A
State Department Name: Department of Education
School District Name (if applicable): Delmar
Federal Agency: U.S. Department of Education
Federal Program: Title I Grants to Local Education Agencies
CFDA Number: 84.010
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: No
Compliance Requirement: Period of Availability
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

Based on our review of the expenditures and encumbrances of six school districts for compliance with Title I Grants to Local Education Agencies period of availability requirements, we identified one school district which carried over more than 15 percent of its 2013 award amount beyond the 15 month award period (September 30, 2013). Per our review of the State's FSF report as of September 30, 2013, we noted that the Delmar School District had expended and encumbered $246,379 of its total 2013 award amount of $374,809. Accordingly, $128,430 or approximately 34 percent of its award allocation was available for expenditures beyond the initial 15 month award period. While we understand that salaries and other employment costs cannot be encumbered in the FSF system, based on our review of October 2013 expenditures related to salaries and other employment costs, the district still appears have an excess amount of funds available after the 15 month period. In addition, we were informed that the district did not receive a waiver for this requirement.

Criteria:

Control exception:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exception:

An LEA that receives $50,000 or more in Title I, Part A funds may not carry over beyond the initial 15 months of availability more than 15 percent of its Title I, Part A funds. An SEA may grant a waiver of the percentage limitation for an LEA once every 3 years if the LEA's request is reasonable and necessary or if supplemental appropriations for Title I, Part A become available for obligation (Section 1127 of ESEA (20 USC 6339)).

Cause:

The Delmar School District was not reviewing its expenditures and encumbrances during the award period to ensure that it using its available funds in accordance with the Title I period of availability requirements.

Effect:

The Delmar School District is carrying over more available funds Title I funds than is allowable.

Recommendation:

The Delmar School District should monitor its Title I expenditures and encumbrances on a monthly basis during the award period to ensure that it using available funds within the acceptable time period.

Questioned Costs:

Questioned costs associated with the $128,430 that was carried over beyond the initial budget period are not determinable.

Views of Responsible Officials:

Agency Contact Name: Kim Wheatley/Cathy Wolfe

Agency Contact Phone Number: 302 735-4040

Corrective Action Plan:

This finding resulted from a miscommunication between DOE and the Delmar School District. The LEA believed that committing future payrolls through employee contracts met the obligation requirement. When the LEA asked that question of the DOE, staff misinterpreted their intentions of “future” payrolls to mean that they would occur prior to the 15 month period lapsing. This has been clarified, and technical assistance has been provided to the Delmar School District to prevent future incidents.

Anticipated Completion Date:

Completed.

Reference Number:	2014-014
Related Prior Year Finding:	2013-006
State Department Name:	Department of Education
School District Name (if applicable):	Capital School District
Federal Agency:	U.S. Department of Education
Federal Program:	Title I Grants to Local Educational Agencies
CFDA Number:	84.010
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	Yes
Compliance Requirement:	Procurement and Suspension and Debarment
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Based on our review of the School Districts' procurement procedures for twenty-four vendors receiving $816,385 of Title I funds during the year, we found that the required procurement procedures were not performed for one vendor which received $12,277 during the year for Program funds expended by the Capital School District. Total Title I nonpayroll expenditures amounted to $10,639,541 for the year end June 30, 2014, which included 91 vendors with expenditures over $10,000.

The vendor was a sole source procurement; however, there was no documentation to justify sole sourcing.

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:

States, and governmental subrecipients of States, will use the same State policies and procedures used for procurements from non-Federal funds. They also must ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Title 29, Chapter 69, Subchapter III. Materiel and Nonprofessional Services, Subsection 6925 of the Delaware code, sole source procurement state:

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 material or nonprofessional service. Sole source procurement shall not be used unless there is sufficient evidence that there is only 1 source for the required material or service and that no other type of material or service will satisfy the requirements of the agency. The agency shall examine cost or pricing data, which shall include lifecycle costing analysis as specified in §§ 6902 and 6909A(b) of this title if the sole source offers more than 1 type or variety of equipment, prior to an award under this section. Sole source procurement shall be avoided, except when no reasonable alternative sources exist. A written determination by the agency stating the basis for the sole source procurement shall be included in the agency contract file. Textbooks and related instructional materials are sole source purchases.

b. An agency seeking a sole source procurement shall prepare written documentation citing the existence of a sole source condition. The document shall include the specific efforts made to determine the availability of any other source and an explanation of the procurement need. The agency may, for confirmation, submit this documentation to the Section for review and comment prior to the intended date of award.

c. The agency shall negotiate with the single supplier, to the extent practicable, a contract advantageous to the agency. The agency shall enter into a formal contract stating the terms and conditions of the procurement.

In accordance with Chapter 5, Subchapter 3.1 of the State's Budget and Accounting Policy Manual, in the case of material and non-professional services, three written quotes must be obtained for purchases with annual cumulative totals between $10,000 to $24,999.

Cause:

The School District did not have a protocol to document their rationale for not obtaining three written quotes and utilizing a sole source procurement, including the specific efforts made to determine the availability of any other sources or an explanation of the specificity of the procurement criteria.

Effect:

The School Districts did not comply with State procurement laws as required by Federal regulations.

Questioned Costs:

The questioned costs were $12,227.

Recommendation:

When determining if contracts meet the sole source criteria, the School Districts should adequately document the determination in accordance with Subchapter III. Materiel and Nonprofessional Services, Subsection 6925 or Chapter 5, Subchapter 3.1 of the State's Budget and Accounting Policy Manual. Otherwise, contracts for these services should be subjected to the normal bidding practices.

Views of Responsible Officials:

Agency Contact Name: Kim Wheatley/Cathy Wolfe

Agency Contact Phone Number: 302 735-4040

Corrective Action Plan:

As currently written, the sole source language in the State Budget and Accounting Manual is unclear if the documentation requirements apply to all procurement methods, to include written quotes. The Capital School District believed that this requirement applied to procurement of items over the mandatory bid threshold given the wording "A contract may be awarded for material or nonprofessional services without competition …"

This was not a single purchase, rather a cumulative purchase of supplies and equipment (paper and blades) necessary for a specialized paper cutting machine that is owned by the district. The district has completed research and has been unable to find any comparable items from other vendors. After this finding was provided to the District, they documented the inability to find another suitable vendor in their files to avoid future findings.

Anticipated Completion Date:

Completed.

Reference Number:	2014-015
Related Prior Year Finding:	2013-008
State Department Name:	Department of Education
School District Name (if applicable):	New Castle County Vocational Technical
Federal Agency:	U.S. Department of Education
Federal Program:	Improving Teacher Quality; Title I Grants to Local Education Agencies; Special Education Cluster
CFDA Number:	84.367; 84.010; 84.027, 84.173
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Special Test and Provisions (Schoolwide)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The school selected for testwork met the required federal threshold to operate under a schoolwide program, but an approved schoolwide plan could not be located for Delcastle Technical High School which was allocated $401,330 in Title I funds by the School District. Accordingly, it was not possible to determine whether a schoolwide plan was completed and approved and whether the plan included all the necessary components. The sample consisted of a total of 40 schoolwide plans from the 116 schoolwide programs across the State's nineteen districts for the year ended June 30, 2014.

Criteria:

Control exception:

The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exception:

A school participating under Title I, Part A may, in consultation with its Local Educational Agency (LEA), use its Title I, Part A funds, along with funds provided from other Federal, State, and local education funds, to upgrade the school's entire educational program in a schoolwide program. At least 40 percent of the children enrolled in the school or residing in the school attendance area for the year of the schoolwide program must be from low-income families. The LEA is required to maintain records to demonstrate compliance with this requirement.

a. To operate a schoolwide program, a school must include the following three core elements:
   (1) Comprehensive needs assessment of the entire school (34 CFR section 200.26(a)).
   (2) Comprehensive plan based on data from the needs assessment (34 CFR section 200.26(b)).
   (3) Annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation (34 CFR section 200.26(c)).

b. A schoolwide plan also must include the following components:
   (1) Schoolwide reform strategies (34 CFR section 200.28(a)).
   (2) Instruction by highly qualified professional staff (34 CFR section 200.28(b)).

(3) Strategies to increase parental involvement (34 CFR section 200.28(c)).
(4) Additional support to students experiencing difficulty (34 CFR section 200.28(d)).
(5) Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR section 200.28(e)).

Cause:

The New Castle County Vocational Technical School District failed to maintain a schoolwide plan for one high school selected that qualified for as schoolwide program.

Effect:

New Castle County Vocational Technical School District's is not in compliance with the requirements for implementing a schoolwide program.

Recommendation:

The New Castle County Vocational Technical School District should ensure it maintains all schoolwide plans and that the schoolwide plans incorporate all necessary components required by the Federal regulations.

Questioned Costs:

There are no questioned costs associated with this finding.

Views of Responsible Officials:

Agency Contact Name: Kim Wheatley/Cathy Wolfe

Agency Contact Phone Number: 302 735-4040

Corrective Action Plan:

Although the District provided the approved plans that are submitted with their consolidated grant application, DOE program staff concur that those plans do not constitute a schoolwide plan. DOE will provide technical assistance to the New Castle County Vocational Technical School District to ensure they have an understanding of what constitutes a schoolwide plan.

Anticipated Completion Date:

June 2015

Reference Number:	2014-016
Related Prior Year Finding:	2013-12
State Department Name:	Department of Education
School District Name (if applicable):	All School Districts
Federal Agency:	U.S. Department of Education
Federal Program:	Title I Grants to Local Educational Agencies, Special Education Cluster, Improving Teacher Quality
CFDA Number:	84.010, 84.027, 84.173, 84.367
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	Yes
Compliance Requirement:	Reporting (FFATA)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The State has an obligation to report subaward data as required under the Federal Funding Accountability and Transparency Act (FFATA). This includes entity information, DUNS number, Parent DUNS number, and relevant executive compensation data, if applicable.

Title I Grants to Local Educational Agencies, Special Education Cluster, and Improving Teacher Quality program funds are passed from the State's Department of Education to the State's school districts, which are included within the State's primary government. The school districts did not perform any kind of analysis to determine which of their vendors qualify as subgrantees and thus are subject to FFATA reporting requirements. The table below shows the number of vendors the school districts utilized:

	Number of school districts selected for testing receiving federal funds	**Number of vendors utilized by the school districts selected for testing**	**Total expenditures to the vendors for the school districts selected for testing**	**Total Non-payroll Expenditures for all school districts**
Title I	18	88	$7,450,238	$10,639,541
Special Education Cluster	19	79	$4,621,570	$9,833,914
Improving Teacher Quality	11	17	$621,728	$1,610,462

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting. The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts.

As provided in 2 CFR part 170 and FAR Subpart 4.14, respectively, Federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act. Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. They first are required to register in Central Contractor Registration (CCR) (if they have not done so previously for another purpose, e.g., submission of applications through Grants.gov) and actively maintain that registration.

Additionally, in accordance with 2 CFR Chapter 1, Part 170 REPORTING SUB-AWARD AND EXECUTIVE COMPENSATION INFORMATION, Prime Awardees awarded a federal grant are required to file a FFATA sub-award report by the end of the month following the month in which the prime awardee awards any sub-grant equal to or greater than $25,000. Reporting requirements shall include the following key data elements about the first-tier subrecipients and subawards under grants and cooperative agreements: subaward date, Subawardee DUNS number, amount of subaward, Subaward Obligation/Action Date, Date of Report Submission, and Subaward Number.

Cause:

While the State DOE has attempted to get clarification from the Federal government on whether the State DOE or the school districts should be performing the FFATA reporting, the State DOE has not received a definitive answer. Therefore, the State and related school districts have not implemented procedures to ensure FFATA reporting requirements are being met as of June 30, 2014.

Effect:

The school districts did not report the required data for subrecipients for programs funded through the State’s Department of Education. Accordingly, the Federal government is not being informed about how such funds are being expended or subgranted.

Recommendation:

We recommend that the State and school districts implement procedures to properly report subaward and sub-contract data as required under FFATA.

Questioned Costs:

There are no questioned costs associated with this finding.

Views of Responsible Officials:

Agency Contact Name: Kim Wheatley/Cathy Wolfe

Agency Contact Phone Number: 302 735-4040

Corrective Action Plan:

As a result of this finding in a prior year, the DOE (through the State's Office of Management and Budget) reached out to U.S. OMB to clarify previous recommendations on the requirements of FFATA reporting for LEAs. After more than 9 months of no response from the federal government, in November 2014, Delaware decided to begin FFATA reporting at the central level for all LEAs to avoid future findings.

Anticipated Completion Date:

Completed.

Reference Number:	2014-017
Related Prior Year Finding:	N/A
State Department Name:	Department of Education
School District Name (if applicable):	N/A
Federal Agency:	U.S. Department of Education
Federal Program:	Race-to-the-Top Incentive Early Learning Challenge
CFDA Number:	S-84.412
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	Yes
Compliance Requirement:	Subrecipient Monitoring
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The Delaware Office of Early Learning (the Office) of the State Department of Education (DOE) has included the need for its subrecipients to have an A-133 single audit if the subrecipient expends more than $500,000 in federal awards as part of its contracts, does not have a process in place to ensure it receives a copy of those A-133 single audit reports, when applicable.

The total amount of expenditures passed through to three subrecipients was $8,101,101 for the year ended June 30, 2014. Total expenditures for the program as a whole were $12,405,240.

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)

Cause

The contracts with subrecipients specify that entities receiving $500,000 or more federal funds are required to have an annual financial statement and compliance audit in accordance with OMB Circular A-133; however, the Office failed to put a process in place to follow-up and request copies of those A-133 single audit reports as they were completed.

Effect

The Office is unable to address any findings that may have been contained in the subrecipients' A-133 single audit reports and take appropriate action, as necessary.

Recommendation

We recommend that the Office establish policies and procedures to ensure that it receives an A-133 audit single audit report, as applicable, or obtain confirmation from the subrecipient that it expended less than $500,000 of federal funds. The policy and procedure should include a schedule to track the receipt, review and any corrective action necessary for each A-133 single audit report received.

Questioned Costs

There are no known questioned costs associated with this finding.

Views of Responsible Officials:

Agency Contact Name: Jason A. Gardner

Agency Contact Phone Number: 302 577-5254

Corrective Action Plan:

Our office previously had a process of going over information within the A-133 single audit reports through our routine meetings with our contractors. However, we have also instituted a process of requesting the actual A-133 reports from our subrecipients. As we receive these reports, we are documenting the receipt, reviewing the information and putting into place any correction action(s) necessary.

Anticipated Completion Date:

Immediately

Reference Number:	2014-018
Related Prior Year Finding:	N/A
State Department Name:	Division of Health and Social Services
School District Name (if applicable):	N/A
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Development Fund (CCDF)
CFDA Number:	93.575, 93.596
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The testing of the three quarterly ACF-696 reports revealed the following errors that were not detected during management's review and submission:

1) An incorrect Federal Medical Assistance Percentage (FMAP) rate was utilized to calculate Matching Funds for the quarter ending December 31, 2013, as noted in the below chart:

CCDF (Quarter Ending 12/31/13)

	Reported on ACF-696	**Actual Value**	**Over (Under) - reported**
FMAP Rate %			
Federal %	**55.67%**	**55.31%**	
State %	**44.33%**	**44.69%**	
Total Expenditures	**$686,093**	**$686,093**	
Federal Share	$381,948	$379,478	$2,470
State Share	$304,145	$306,615	($2,470)

2) Although no errors were found on the report, there is no evidence that management review was performed over the ACF-696 report for the quarter ending June 30, 2014 prior to submission to the Federal agency.

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:

States are required to use the Form ACF-696 to report expenditures for the three funding streams that comprise the Child Care and Development Fund--the Mandatory Fund, the Matching Fund, and the Discretionary Fund.

Per 45 CFR Section 98, "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 55.67 percent for the period of October 1, 2012 through September 30, 2013 and 55.31 percent for the period of October 1, 2013 through September 30, 2014.

Cause:

1) The preparer neglected to update the FMAP rate from the prior period's report which was used as a template. The supervisory review failed to detect this error.
2) Management review controls were not adequately implemented due to the inadequacy of staffing within the division.

Effect:

1) Misstated federal financial reports result in the Federal Government having inaccurate information about the federal share of expenditures incurred by the programs for the quarter ended December 31, 2013. There was no effect on cash draws since these were based on expenditures within FSF and not on submitted reports.
2) The lack of supervisory review over the report increases the risk for the submission of inaccurate expenditure information for the quarter ended June 30, 2014.

Questioned Costs:

There is $2,470 of over-reported federal costs associated with use of the incorrect FMAP rate for the identified exception.

Recommendation:

We recommend that the Department ensure that policies and procedures over reconciliations and review and approval of the information being reported in ACF-696 reports are executed.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

The match on the CCDF Quarter Ending 12/31/13 report was misreported, as the incorrect Federal Medical Assistance Percentage (FMAP) was used. The error was corrected on the CCDF Quarter Ending 3/31/14 report. Existing policies and procedures are being updated and will include an additional reconciliation of expenditures to the 425 report performed by another staff member within the Grants Management Unit. In addition, management review will be indicated by a signature on the hard copy report and (once access to the On-Line Data Collection system is obtained), certification of the ACF 696 report.

Anticipated Completion Date:

As of the report submitted for the quarter ending 3/31/14.

Reference Number: 2014-019
Related Prior Year Finding: 2013-020
State Department Name: Division of Health and Social Services
State Division Name (if applicable): Division of Management Services
Federal Agency: U.S. Department of Health and Human Services
Federal Program: Supplemental Nutrition Assistance Program (SNAP)
CFDA Number: 10.551, 10.561
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: No
Compliance Requirement: Reporting: Financial Reporting
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

Testing of two quarterly SF-425 reports revealed the following errors which were not detected during management's review and submission:

1. **SF-425 Report for Quarter-Ending 12/31/13:** The 'Federal share of expenditures' amount of $2,557,830 as reported on line 10 of page 1 (item e) of the SF-425 does not reconcile to the expenditures reported in the State's financial system (FSF) of $2,556,482. This is a result of the following elements:

    a) The 'E&T 50% Grant' amount of $24,267 as reported in section 10, column 12 on page 3 of the SF-425 does not reconcile to the expenditures reported in FSF.

    b) The "ADP Development" amount of $43,127 reported on column 6 of page 2 (item g) of the SF-425 does not reconcile to the expenditures reported in FSF.

    c) The "ADP Operations" amount of $0 reported on column 7 of page 2 (item g) of the SF-425 does not reconcile to the expenditures reported in FSF.

2. **SF-425 Report for Quarter-Ending 6/30/14:**

    a) The "ADP Development" amount of $324,865 reported on column 6 of page 3 (item g) of the SF-425 does not reconcile to the expenditures reported in FSF.

    b) The "ADP Operations" amount of $0 reported on column 7 of page 3 (item g) of the SF-425 does not reconcile to the expenditures reported in FSF.

All of these errors are summarized in the table below:

Quarter-Ending 12/31/2013	**Ledger/FSF**	**Reported on SF-425**	**SF-425 v Ledger**
Federal Share of Expenditures	$2,556,482	$2,557,830	$1,348
E&T 50% Grant	$22,919	$24,267	$1,348
ADP Development	$0	$43,127	$43,127
ADP Operations	$43,127	$0	($43,127)
Quarter-Ending 6/30/2014			
ADP Development	$0	$324,865	$324,865
ADP Operations	$324,865	$0	($324,865)

3. There is no documentation of management review over the SF-425 reports for the quarter-ended December 31, 2013 & June 30, 2014.

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 (FFR):

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 and 12/31. For final FFRs, the reporting period end date shall be the end date of the project or grant period.

Cause:

- The "E&T 50% Grant" error occurred due to a lack of adequate attention to detail by the preparer in the preparation of the SF-425 report. The preparer input the incorrect amount when compiling the report. The absence of a detailed review by management also contributed in the failure to detect the error.
- The "ADP Operations" & "ADP Development" errors occurred because the preparer did not account for known coding errors in FSF.

- The "Federal share of expenditures" is a summary of all reported expenditures on the SF-425 and contained the accumulation of all errors within the report.
- Management review controls were not adequately implemented due to the inadequacy of staffing within the division.

Effect:

Expenditures reported via the SF-425 federal financial report for the quarter-ended June 30, 2014 and December 31, 2013 are misstated and result in the Federal Government having inaccurate information about program expenditures. There was no impact on cash draws since there were based on expenditures within FSF and not on reports submitted.

Questioned Costs:

There are $1,348 of questioned costs associated with the over-reporting of the federal share of outlays related to the E&T 50% Grant on the SF-425.

Recommendation:

We recommend that the Department ensure that policies and procedures over reconciliations and review and approval of the information being reported for the SNAP program.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

The amount reported for the E&T 50% grant on the SNAP Quarter Ending 12/31/13 report was over-reported, as the preparer submitted the report with $24,267 in expenditures and should have submitted the report with $22,919 in expenditures. The error was corrected on the SNAP Quarter Ending 6/30/14 report.

Existing policies and procedures are being updated will include an additional reconciliation of expenditures to the DGL123 report by Appropriation. In addition, management review will be indicated by a signature on the hard copy report and (once access to the FNS FPRS system is obtained), certification of the FNS 778 report.

In FY14 DHSS brought in outside technical assistance in an effort to expand the documentation review/ procedures for preparing the quarterly SNAP report. This outside assistance includes a heightened level of review and quality control of the supporting work papers for the reports prior to submission. We believe that this enhanced level of support during the reporting process will address the:

- Need for a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the quarterly report;
- The need to strengthen policies and procedures surrounding obtaining and reconciling the expenditure support and DGL123 reports from all departments incurring costs relating to the SNAP Program prior to preparation and submission of the Federal Financial reports. This will include the creation of checklists and supporting procedures to enhance the depth of polices/procedures.

- Additionally, DHSS will include in the outside technical assistance review/quality control process a reconciliation of the expenditure reports to the State Financial System as part of the preparation of quarterly federal reports. In the process of future report reconciliation, the agency will correct category mis-coding errors.

In addition, we were aware that the Division of Social Services had mistakenly established an ADP Operations activity and used this activity when processing their documents. We had discussed this issue with our Food and Nutrition Services (FNS) regional office and at their direction, we notate it on the reports that we submit. Though the Federal Fiscal Year (FFY) 2015 grant now includes an ADP Development activity, the activity was not added until late in the first quarter. Thus, expenditures were incurred prior to the establishment of the additional activity and Purchase Orders had already been established using the ADP Operations activity. Therefore, we will continue to incur expenditures under the ADP Operations activity and will continue to make notations on the report. We will ensure the FFY 2016 grant is setup to ensure both activities are available at the start of the grant.

Anticipated Completion Date:

As of the report submitted for the quarter ending 6/30/14.

Reference Number:	2014-020
Related Prior Year Finding:	2013-019
State Department Name:	Division of Health and Social Services
State Division Name (if applicable):	Division of Management Services
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Temporary Assistance to Needy Families (TANF)
CFDA Number:	93.558, S-93.558
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The testing of three quarterly ACF-196 reports revealed the following issues that were not detected during management's review and submission of reports:

1. The State MOE Expenditures in TANF as reported on line 5 (Column B) on the ACF-196 report for December 31, 2013 was incorrectly omitted, in the amount of $292,723.82.
2. The TANF Contingency Fund expenditure as reported on line 6 (Column D) on the ACF-196 report for December 31, 2013 was incorrectly reported as $1,614,549 when no funds were actually expended.
3. The TANF Contingency Fund expenditure as reported on line 6 (Column D) on the ACF-196 report for March 31, 2014 was incorrectly reported as $2,690,915 when no funds were actually expended.
4. Additionally, there is a lack of documentation that a management review was performed over the reports for quarter ending December 31, 2013 prior to submission to the Federal agency.

TANF (Quarter Ending 3/31/14)

	Reported on ACF-196	Ledger Value	Over(Under)statement
Contingency Fund Expenditures	$2,690,915	$0	**$2,690,915**

TANF (Quarter Ending 12/31/13)

	Reported on ACF-196	Ledger Value	Over(Under)statement
Contingency Fund Expenditures	$1,614,549	$0	**$1,614,549**
State MOE Expenditures	$0	$292,723.82	**($292,723.82)**

Criteria:

Control criteria:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements**.**

Compliance criteria:

In accordance with 45 CFR Part 265:

The grantee must submit quarterly data collection (TANF Data Report) and financial status reports (TANF or Territorial Financial Reports, ACF-196 or ACF-196-T). The financial reports are due within 45 days following the end of each federal fiscal quarter and must show cumulative expenditures. Grantees must submit separate quarterly reports for each funding year. ACF-196 reports must be received by ACF within 45 days after the end of each quarter of the Federal Fiscal Year.

The TANF Financial Report must be "a complete and accurate report," meaning that:

1. *The reported data accurately reflect information available to the State in case records, financial records and automated data systems;*
2. *The data are free from computational errors and are internally consistent (e.g., items that should add to totals do so);*
3. *The State reports data on all applicable elements; and*
4. *All expenditures have been made in accordance with §92.20(a) of this title*

Cause:

- The State MOE expenditure error on the 12/31/13 ACF-196 report occurred due to internal work papers used to generate the report undergoing a transitional process to a new format which incorrectly omitted the State MOE category. The preparer neglected to note the absence of this information in preparation of the report.
- The Contingency Fund errors occurred due to a misinterpretation of instructions by the preparer when preparing the ACF-196 report for the quarter ending 12/31/13 and 3/31/14. The preparer utilized the Contingency grant award amounts as the Contingency expenditures for both quarters when no Contingency expenditures were actually made at the time.
- Management review controls were not adequately implemented due to the inadequacy of staffing within the division.

Effect:

Misstated federal financial reports result in the Federal Government having inaccurate quarterly information about the expenditures that were incurred by the programs. Since all amounts drawn down are based on the State's financial system, cash drawn was not affected.

Questioned Costs:

The impact of unreconciled reporting variances is not determinable.

Recommendation:

We recommend that the Department of Health and Social Services submit a revised report to correct these misstatements. We recommend that the Department ensure that policies and procedures over reconciliations and review and approval of the information being reported in ACF-196 reports are executed.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302)-255-9235

Corrective Action Plan:

The State MOE on the TANF Quarter Ending 12/31/13 report was under-reported, as the preparer submitted the report with $0 and omitted $461,205.34 in expenditures. MOE expenditures were reported on the TANF Quarter Ending 03/31/14 report. In addition, TANF Contingency expenditures were over-reported on the TANF Quarter Ending 12/31/13 and 03/31/14 reports. The misreporting of Contingency expenditures was corrected on the TANF Quarter Ending 09/30/14 report.

Existing policies and procedures are being updated and will include an additional reconciliation of expenditures to the 425 report performed by another staff member within the Grants Management Unit. In addition, management review will be indicated by a signature on the hard copy report and (once access to the On-Line Data Collection system is obtained), certification of the ACF 196 report.

In addition, in FY14, DHSS brought in outside technical assistance in an effort to expand the documentation review/ procedures for preparing the quarterly TANF report. This outside assistance includes a heightened level of review and quality control of the supporting work papers for the reports prior to submission. We believe that this enhanced level of support during the reporting process will address the:

- Need for a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the report;
- The need to strengthen policies and procedures surrounding obtaining and reconciling the expenditure support and DGL123 reports from all departments incurring costs relating to the TANF Program prior to preparation and submission of the Federal Financial reports. This will include the creation of checklists and supporting procedures to enhance the depth of polices/procedures.

Additionally, DHSS will include in the outside technical assistance review/quality control process a reconciliation of the expenditure reports to the State Financial System as part of the preparation of quarterly federal reports.

Anticipated Completion Date:

As of report submitted for the quarter ending 9/30/14.

Reference Number:	2014-021
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Medicaid and Medical Assistance
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Medicaid
CFDA Number:	93.775, 93.777, 93.778
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The testing of two quarterly CMS-64 reports revealed the following errors on the 3/31/14 report which were not detected during management's review and submission:

1. The "Health Insurance Payments: MCO" amount of $ 95,929,070 reported on page 9 line 18A reconciles to the expenditures reported in FSF in the aggregate, but does not reconcile to MMIS reports for MCO.
2. The "Intermediate Care – MR – Public Providers" amount of $3,174,741 reported on page 4 Line 4A does not reconcile to the expenditures reported in FSF.
3. The "Total Medicaid Base" amount of $39,368,636 reported on page 7 does not reconcile to the expenditures reported in FSF.

All of these errors are summarized in the table below:

	Reported on CMS-64	Per MMIS Supporting Documentation	Per FSF Supporting Documentation	Variance
Health Ins Payments: MCO	95,929,070	95,920,171	95,929,070	8,899
Intermediate Care-MR-Public Providers	3,174,741	n/a	4,878,711	(1,703,970)
Total Medicaid Base	39,368,636	n/a	39,455,966	(87,330)

Criteria:

<u>Control criteria:</u>

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 criteria:

Per 42 CFR Section 430.30 (c), "(1) The State must submit Form CMS-64 (Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program) to the central office (with a copy to the regional office) not later than 30 days after the end of each quarter.

(2) This report is the State's accounting of actual recorded expenditures. The disposition of Federal funds may not be reported on the basis of estimates."

Additionally, the CMS-64 presents expenditures, recoveries, and other items that reduce expenditures for the quarter and prior period expenditures. The amounts reported on the CMS-64 and its attachments must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available immediately at the time the claim is filed.

Cause:

The exceptions occurred due to a lack of adequate attention to detail by the preparer in the preparation of the CMS-64 report. The preparer input the incorrect amount when compiling the report. Additionally, the MMIS reporting output appears to be incomplete. The absence of a detailed review by management also contributed in the failure to detect the error.

Effect:

Expenditures reported on the March 31, 2014 Federal Financial Report are misstated and result in the Federal Government having inaccurate information about program expenditures. There was no effect on cash draws since these were based on expenditures within FSF and not submitted reports.

Questioned Costs:

The impact of unreconciled reporting variances is not determinable.

Recommendation:

We recommend that the Department of Health and Social Services submit a revised report to correct these misstatements. We recommend that the Department of Health and Social Services implement policies and procedures to ensure that supporting documentation for expenditures accounted for in the financial reports are sufficiently maintained and reviewed. We also recommend implementation of a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the report.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

The cited $8,899 variance is due to an error. This error will be corrected on the CMS-64 report for the quarter ending 3/31/15.

$1,703,970 was underreported on the CMS-64 due to an EXCEL cell mapping error. The error was corrected and a correcting prior period adjustment (PPA) submitted on the quarter ending 9/30/14 CMS-64 report.

The cited $87,330 variance represents an adjustment that had to be made when entering the financial information into the federal MBES system related to credits.

We would also like to state that DHSS has brought in outside technical assistance in an effort to expand the documentation review/ procedures for preparing the CMS 64 report. This outside assistance includes a heightened level of review and quality control of the supporting work papers for the reports prior to submission. We believe that this enhanced level of support during the reporting process will address the need for a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the quarterly report;

Anticipated Completion Date:

PPA submitted on QE 9/30/14 report in December 2014, $8,899 variance to be corrected in QE 3/31/15 report to be submitted by 5/15/15.

Reference Number:	2014-022
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of State Service Centers
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Low Income Housing Energy Assistance Program (LIHEAP)
CFDA Number:	93.568
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Some attributes/components of the LIHEAP Household Annual Report for the period October 1, 2012 – September 30, 2013 could not be agreed to supporting documentation or supporting documentation could not be provided. The following errors occurred on the report submitted:

1. **LIHEAP ASSISTED HOUSEHOLDS**

    a. For the "*Heating*" line item, supporting documentation was not provided for Age 5 Years or Younger column (3,266 total) and Elderly, Disabled or Young Child column (12,402 difference total).

    b. For the "*Cooling*" line item, supporting documentation was not provided for Total Number of Assisted Households column (12,730 total), Under 75% Poverty column (3,773 total), 75%-100% Poverty column (2,533 total), Age 5 Years or Under column (2,130 total), and Elderly, Disabled or Young Child column (8,885 total).

    c. Also for the "*Cooling*" line item, the report submitted did not agree to the supporting documentation for 101%-125% Poverty column (2,377 difference), 126%-150% Poverty column (1,903 difference), Over 150% Poverty column (69 difference), 60 Years or Older column (5,629 difference) and Disabled column (2,895 difference).

    d. For the "Crisis Winter/Year Round" line item, supporting documentation was not provided for Under 75% Poverty column (410 total), 75%-100% Poverty column (366 total), 101%-125% Poverty column (279 total), 126%-150% Poverty column (224 total), Over 150% Poverty column (212 total), 60 Years or Older column (581 total), Disabled column (333 total), and Elderly, Disabled or Young Child column (924 total).

    e. For the "Weatherization" line item, supporting documentation was not provided for Total Number of Assisted Households column (118 total).

    f. For the "Any Type of LIHEAP Assistance" line item, supporting documentation was not provided for Total Number of Assisted Households column (18,005 total), 60 Years or Older column (6,095 total), Disabled column (3,530 total), Age 5 Years or Under column (3,350 total) and Elderly, Disabled or Young Child column (12,517 total).

2. LIHEAP APPLICANT HOUSEHOLDS

a. For the “Heating” line item, supporting documentation was not provided for Total Number of Applicant Households column (18,139 total), Under 75% Poverty column (5,280 total), 75%-100% Poverty column (3,815 total), 101%-125% Poverty column (3,173 total), 126%-150% Poverty column (2,558 total) and Over 150% Poverty column (3,313 total).

b. For the “Cooling” line item, supporting documentation was not provided for Total Number of Applicant Households column (12,733 total), Under 75% Poverty column (3,773 total), 75%-100% Poverty column (2,533 total), 101%-125% Poverty column (2,498 total), 126%-150% Poverty column (1,988 total) and Over 150% Poverty column (1,941 total).

c. For the “Crisis Winter/Year Round” line item, supporting documentation was not provided for Total Number of Applicant Households column (1,491 total), Under 75% Poverty column (410 total), 75%-100% Poverty column (366 total), 101%-125% Poverty column (279 total), 126%-150% Poverty column (224 total) and Over 150% Poverty column (212 total).

d. For the “Weatherization” line item, supporting documentation was not provided for Total Number of Applicant Households column (118 total), Under 75% Poverty column (31 total), 75%-100% Poverty column (17 total), 101%-125% Poverty column (25 total), 126%-150% Poverty column (13 total) and Over 150% Poverty column (32 total).

Additionally, there is a lack of evidence indicating supervisory review and approval over the preparer’s work for both the Household Annual Report for the period October 1, 2012 – September 30, 2013 and the Carryover & Reallotment Report for the period October 1, 2012 – September 30, 2013.

Criteria:

Control criteria:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements**.**

Compliance 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

The LIHEAP Program is also required to submit an annual Carryover and Reallotment Report (OMB No. 0970-0106). 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 also be reported (42 USC 8626).

Key Line Items –

(1) “*Carryover amount*”

(2) “*Reallotment amount*”

Cause:

The key personnel responsible for preparing the Household Annual Report and the Carryover & Reallotment Report left her position at the State during the year after submitting the reports. There was a lack of proper policies and procedures to manage the staff transition and facilitate the flow of information resulting in the failure to maintain and provide adequate supporting documentation that was used to submit the Household Annual Report. This change in staffing also led to not maintaining the documentation of management review over both the Household Annual Report and the Carryover & Reallotment Report.

The State system utilized to prepare the Household Annual Report can only generate reports that reflect the most current account balances at the time of report production. Since the original system reports were not maintained, program personnel were not able to obtain older system reports to support the data reported in the Household Annual Report.

Effect:

The Program is reporting incorrect data for both assisted and applicant information. The lack of supervisory review over the reports creates the risk of submitting inaccurate report information for the Federal reports.

Questioned Costs:

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

Recommendation:

The Program should put into place proper controls surrounding transitional changes within staffing to create better continuity of information regarding the preparation of Federal reports. Given the limiting nature of the system used to prepare the Household Annual Report to only run data at a certain point in time, we also recommend the program ensure procedures are being followed to routinely run and maintain system reports at the time of Federal report preparations to ensure proper documentation is available for management review and audits. The Program should also ensure they follow their policies and procedures that someone other than the preparer is verifying the report information in the reports prior to submission to the Federal government.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302)-255-9235

Corrective Action Plan:

1. In May 2014 the Office of Community Services (OCS) of the Division of State Service Centers (DSSC) hired a new program manager for the LIHEAP program with a strong background in statistical analysis, federal reporting and data management. Additionally, in June 2014 OCS/DSSC created a new position (Management Analyst II) within LIHEAP requiring significant experience/skills in financial analysis, computer systems and program analysis. This hire occurred in June 2014. Both hires were made as a response to past audit findings and an awareness that LIHEAP required leadership capable of identifying data management problems, developing solutions and implementing positive change.

   In coordination with the Social Service Senior Administrator for LIHEAP, staff initiated a comprehensive review of the current software referenced in this finding. Effective November 15, 2014 the Department of Health and Social Services Information Resources Management unit has been working in conjunction with LIHEAP staff to update and modify the software system which provides the data for both the Carryover report and Household Data Reports. Simultaneously, they have researched external vertical software employed by other states managing LIHEAP programs.

   The short-term solution to these problems has been the manual review and analysis of LIHEAP application data to provide accurate, documented data for the December 15, 2014 interim report. The same process is being implemented for the January 15, 2015 report.

   The long-term solution to the data management problem will be resolved through one of two options that are being considered as of December 4, 2014. The first option is to hire an external, DHSS approved software vendor to increase the functionality of current State software so that federal reports will be generated automatically. The second option is to employ the above-mentioned vertical software used by other States as an effective alternative to the state developed software. The option selected will ensure that accurate data is presented to the federal government for all reports and that documentation substantiating these reports can be replicated when said reports are ordered.

2. LIHEAP policies and procedures regarding federal reports (Section 800) will be updated to reflect the material above and any conclusions regarding software implementation.

3. LIHEAP policies and procedures will include a requirement that the Social Services Senior Administrator for the Office of Community Services will review and formally authorize the submission of the Household Data Report, carryover and reallotment report and any report submitted to the federal government.

Anticipated Completion Date:

The short-term solution referred to this finding was implemented effective December 4, 2014. The long-term solution will be implemented by July 15, 2015.

Policies and procedures will be changed by January 15, 2014

The formal authorization of the household report by the Social Services Senior Administrator will begin with the submission of the December 15, 2014 Household Data Report**.**

Reference Number: 2014-023
Related Prior Year Finding: N/A
State Department Name: Department of Health and Social Services
State Division Name (if applicable): Division of Social Services
Federal Agency: Department of Health and Human Services
Federal Program: Child Care Development Fund(CCDF)
CFDA Number: 93.575, 93.596
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: No
Compliance Requirement: Eligibility
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

For 1 out of 55 applicants selected for testing, the Division of Social Services (DSS) was unable to provide documentation to support that a data match has been performed to verify the applicant's provided information prior to receiving the benefits. The following exceptions were found:

- For 1 out of 55 sampled applicants, DSS was unable to provide documentation that a data match had been performed. Benefits provided to this client were $4,693.

Benefits provided to the 55 applicants reviewed were $99,207. The total benefits paid during FY2014 amounted to $9,667,541 for 53,619 applicants.

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 Department of Health and Social Services procedures do not include a supervisory review or system edit check to validate appropriate data match has been performed and entered into the DCIS-II system (the State's beneficiary database) with hardcopy evidence uploaded in Document Imaging System (DIS).

Effect:

Without the proper data match, DSS may not detect or deter non-compliance.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that the Department of Health and Social Services reinforce its policies and procedures surrounding recipient data match for all CCDF applicants/recipients.

Reviews of Responsible Officials:

1. This case was a Division of Family Services (DFS) referral. Our Foster Care unit processed this case. As such, the child's involvement in the child welfare system represents the need. Policy Reference 11003.8 (c).

Agency Contact Name: Ray Fitzgerald & Betty Garrett

Agency Contact Phone Number: 302-255-9645

Corrective Action Plan:

We would like to indicate that DHSS is in the process of modernizing the eligibility system which is being implemented in phases and is now called DEMS. Phase 1 was implemented in the Fall of 2014 and now utilizes the federal data services hub to automatically conduct income eligibility verifications and citizenship prior to making an eligibility determination enhancing the verification process. Additional upcoming phases of DEMS will be implemented which will put in place additional data matches.

Anticipated Completion Date:

12/31/2015

Reference Number: 2014-024
Related Prior Year Finding: N/A
State Department Name: Department of Health and Social Services
State Division Name (if applicable): Child Care Development Fund
Federal Agency: Department of Health and Human Services
Federal Program: Child Care Development Fund
CFDA Number: 93.575, 93.596
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: No
Compliance Requirement: Fraud Detection and Repayment
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

For 1 out of 25 fraud cases selected, the Audit & Recovery Management Services (ARMS) was unable to provide the documentation for the procedures performed by the unit in conducting the investigation. The ARMS investigation resulted in a repayment of $2,533.61 for child care benefits. ARMS investigated 275 cases during the fiscal year.

Criteria:

Control Exception:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance Exception:

Per 45 CFR 92.42, “Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.” There are specific requirements that must be followed to ensure that the Program establishes policies and procedures to identify and investigate fraudulent payments. “Lead Agencies shall recover child care payments that are the result of fraud. These payments shall be recovered from the party responsible for committing the fraud (45 CFR section 98.60).” The state created the ARMS team to meet this requirement.

Cause:

The missing case file was misplaced after the ARMS personnel investigation.

Effect:

The client could claim that an overpayment notification was never sent as the certified mail receipt was lost, and that an overpayment was not justified based on the lack of documentation.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that ARMS enhance their controls and record retention policies and procedures to ensure proper records are maintained to support the client's overpayment determination. This should include a logging system to track the whereabouts of physical files.

Views of Responsible Officials:

Of the some 70 files (overall) audit staff asked to be pulled for review, unfortunately 1 file could not be located. ARMS instituted a new Document Imaging System January 5, 2015 that will alleviate the need to hunt down physical files in the future.

Agency Contact Name: Gwen Griffith

Agency Contact Phone Number: 302-255-9032

Corrective Action Plan:

To improve the reliability and accessibility of supporting documentation, a new Document Imaging System was instituted on January 5, 2015. As all documentation will be scanned into the system and accessible in the system, misplaced files will be eliminated.

Anticipated Completion Date:

January 5, 2015

Reference Number:	2014-025
Related Prior Year Finding:	2013-017
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Social Services
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Temporary Assistance for Needy Families (TANF)
CFDA Number:	93.558, S-93.558
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Allowable Costs (Effort Reporting)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Payroll expenditure testing revealed Time and Effort reports were not properly approved and reviewed by a supervisor for multiple pay cycles, were not certified after the fact, or were otherwise incorrectly prepared as noted below for sixteen out of sixty five payroll transactions examined. The employees charged $122 to the program out of our sample of $65,322. Total payroll expended for the program was $2,156,289. The following exceptions were found:

- For two (2) out of 65 payroll charges, employees' time and effort certification tested were prepared after the audit request and therefore considered not properly completed. The amount charged to the grant was $52.
- For one (1) out of 65 payroll charges tested charged the program more than the employee certified in the time and effort certifications and/or time distributions. The amount charged to the grant was $10.
- Thirteen (13) out of 65 payroll charges, the employees' time and effort certifications and/or time distributions tested did not properly identify the programs that they worked on and therefore does not support the payroll charges to TANF. The amount charged to the grant was $60.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled.

(OMB Circular A-87, Attachment B.8.h.6)

Cause:

The exceptions occurred because these employees are part of the DHSS IRM Department and the Division of Social Services and IRM do not have procedures established that require supervisor review and approval of time charged to the Federal grants from employees outside DSS.

Effect:

Employees are recording the incorrect or unapproved payroll charges to the federal grant.

Questioned Costs:

Questioned costs related to unapproved, incorrect or inappropriate time and effort certifications in the sample are $122.

Recommendation:

We recommend that DSS enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort reports as well as enhancing its policies and procedures in preparation of the time and effort certification to ensure compliance with the federal requirements. We suggest that DSS conduct annual training on the regulations, policy and procedure associated with effort reporting and include the training as part of new employee orientation.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts

Agency Contact Phone Number: 302-255-9235

2 of the 65payroll charges cited under "Condition" amounting to $52.00 of the $122.00 under "Questioned Costs" will be recoded to State funds.

1 out of 65 payroll charges cited under "Condition" amounting to $10.00 of the $122.00 under "Questioned Costs" will be recoded to State funds.

13 out of 65 payroll charges cited under "Condition" amounting to $60.00 of the $122.00 under "Questioned Costs" will be recoded to State funds.

Corrective Action Plan:

The $122.00 in questioned costs will be recoded to State funds.

For IRM staff, as of 7/1/14 a new password protected time keeping system was instituted whereby staff enter their time replacing the password protected system described above. Supervisory approval is done via e-mail and archived which was instituted 7/1/14.

A formal departmental policy on time and effort reporting has been formulated and is targeted to be issued by 3/31/15 for all applicable staff and supervisors to follow. The policy includes the requirement, basis and importance of effort reporting, frequency, the need to document effort and have supervisory approval, and need to align/recode payroll charges to reflect effort as a required and ongoing process.

Anticipated Completion Date:

New IRM time keeping system on 7/1/14 including archiving supervisory approval e-mails. DHSS time and effort reporting policy 3/31/15. Recode of costs by 6/30/15.

Reference Number:	2014-026
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Social Services
Federal Agency:	Department of Health and Human Services
Federal Program:	Temporary Assistance for Needy Families (TANF)
CFDA Number:	93.558, S-93.558
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Eligibility
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

For 1 out of 55 applicants selected for testing, the Division of Social Services (DSS) (i) was unable to provide documentation to support that a data match has been performed to verify the applicant's provided information in accordance with their control procedures, and (ii) an undocumented immigrant was incorrectly deemed to be eligible. Benefits provided to the recipient were $2,137 while the total benefits to the 55 applicants reviewed were $104,581. The total benefits paid during FY2014 amounted to $22,441,345 for 22,769 applicants.

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 TANF. These include that the State or its designee shall:

A(2) Qualified Aliens

"Unless exempt under 8 USC 1613(b), qualified aliens, as defined in 8 USC 1641(b), entering the U.S. on or after August 22, 1996, are not eligible for a Federal means-test public benefit (e.g., federally funded TANF assistance), as defined in 8 USC 1611(c), for a period of 5 years (8 USC 1613(a)). The 5-year bar begins either on the date of the alien's entry into the U.S. as a qualified alien or on the date the alien residing in the U.S. becomes a qualified alien, whichever is later. If the alien entered the U.S. on or after August 22, 1996, but does not have an immigration status that qualifies (as defined in 8 USC 1641(b)), the individual is not eligible for a Federal public benefit (as defined in 8 USC 1611(c)). The following qualified aliens are exempt from the 5-year bar: refugees, asylees, aliens whose deportation is being withheld, Amerasians, Cuban/Haitian entrants, as well as veterans, members of the military on active duty, and their spouses and unmarried dependent children (8 USC 1613(b))."

Cause:

The Department of Health and Social Services procedures do not include a supervisory review or system edit check to validate appropriate data match has been performed and entered into the DCIS-II system (the State's beneficiary database) with hardcopy evidence uploaded in Document Imaging System (DIS).

Effect:

Without the proper data match, DSS may not detect or deter non-compliance such as for undocumented immigrant, and DSS may continuously allow participants to benefit from the program even though they are no longer in compliance with the federal requirements.

Questioned Costs:

There are $2,137 of questioned costs associated with the items noted above.

Recommendation:

We recommend that the Department of Health and Social Services enhance necessary policies and procedures surrounding recipient's data match for all TANF applicants/recipients in order to maintain up-to-date information with appropriate supporting documentation within both DCIS-II and DIS.

Views of Responsible Officials:

Agency Contact Name: Ray Fitzgerald & Betty Garrett

Agency Contact Phone Number: 302-255-9645

Corrective Action Plan:

1. During the review period DSS experienced excessive turnover with respect to the staff member who is responsible for the SAVE forms. The agency believes that fact contributed to this exception.
2. The SAVE Coordinator will track the SAVE forms monthly to ensure that the information has been entered into DIS to ensure compliance information is documented.
3. Within the last 6 months DSS has also began uploading the SAVE forms into their Document Imaging System (DIS) which should result in information being more readily available for future audits.
4. The DSS Quality Improvement Team will review random samples of SAVE cases to insure compliance.
5. The $2,137 in questioned costs will be recoded to State funds.

Anticipated Completion Date:

June 30, 2015

Reference Number: 2014-027
Related Prior Year Finding: N/A
State Department Name: Department of Health and Social Services
State Division Name (if applicable): Division of Medicaid and Medical Assistance
Federal Agency: Department of Health and Human Services
Federal Program: Medicaid Cluster
CFDA Number: 93.775, 93.777, 93.778
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA [Yes/No]: No
Compliance Requirement: Provider Eligibility
Control Finding [Yes/No] Yes
Compliance Finding [Yes/No] Yes
Scope Limitation [Yes/No] No

Condition:

For three (3) out of 25 providers selected for testing, the Division of Medicaid and Medical Assistance (DMMA) was unable to provide documentation to support that the Medicaid Service Provider signed a contract with the Program in accordance with the State Plan, including the disclosure requirements under 42 CFR 455 subpart B. The third party servicer to the Program did not require it.

In addition, for one (1) out of 25 applicants selected, the DMMA did not provide evidence that the applicant obtained a license in accordance with the State Plan. The third party services to the Program did not require it.

These four (4) providers charged the Medicaid program through their employer. These costs charged through their employers were pooled with other charges to the Medicaid program from other providers. Therefore, the actual dollar amount for the services charged from these individuals cannot be determined. The State uses 371 similar individual providers for the program. There are 1,335 providers for the program, and total benefits through these are $968,426,988.

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) established and maintain internal control designed to reasonably ensure compliance with Federal laws regulations and compliance requirements.

Compliance Exceptions

There are specific requirements that must be followed to ensure that service providers meet the federally established compliance requirements for Medicaid. These include:

1. The provider is licensed in accordance with the State Plan.
2. The agreement with the provider complies with the requirements of the State Plan, including the disclosure requirements of 42 CFR 455 subpart B.

In addition, the State Plan, under Section 4.46, assures that, in accordance with Title 42 CFR 455.412, "the State Medicaid agency has a method for verifying providers licensed by a State and that such provider' licenses have not expired or have no current limitations at the time of enrollment or recertification".

Cause:

The policies and procedures established at the third party servicer do not agree with the State Plan. The established State Plan does not enumerate any circumstance for which the Provider is not required to sign a contract or obtain a license in accordance with the State Plan. However, the provider eligibility is processed through a third party system, and the policies and procedures listed in the third party system's manual allow for such exceptions.

Thus, the review and approval control process that occurs at the third party system incorrectly identified these four as eligible to perform services for the Medicaid Program.

The inconsistencies that exist between the two sets of policies created a scenario that allowed one (1) service provider to become eligible to perform services for the Medicaid Program without proper licensure and three (3) providers to become eligible to perform services for the Medicaid Program without a contract with the State in accordance with the State Plan resulting in an indeterminable amount of expenditures.

Effect:

Medicaid clients may receive services from an unlicensed provider who does not have the appropriate training to perform those services.

Additionally, Medicaid providers may perform services not in accordance with the State Plan and against Federal guidelines in terms of the grant agreement.

Questioned Costs:

There is an indeterminable amount of questioned costs associated with the 4 items identified above.

Recommendation:

We recommend that the Medicaid Program review the policies and procedures in place at the third party servicer to ensure consistency between the goals and guidelines of the Program and third party servicers determining eligibility of new care providers for the Program.

Views of Responsible Officials:

DMMA has reviewed the finding and does not agree with it.

DMMA ensures that all providers who bill Medicaid have licenses, certifications and contracts with Medicaid as required by the State Plan. The 3 providers for whom we have been cited provided support to the contracted provider (which has a contract with the Medicaid program and billed the Medicaid program) and as such, are not required to have an individual contract with Medicaid. None of these providers ever billed the Medicaid program.

Per the finding, one of 25 providers did not have a license. The referenced provider is a Substance Abuse Counselor for which there is no state license.

Auditor Response:

The Program was unable to provide documentation to substantiate the claim that the identified providers are exceptions to the rule as state in the State Plan. No exceptions were listed in the State Plan.

Agency Contact Name: Stephen Groff

Agency Contact Phone Number: 302-255-9626

Corrective Action Plan:

As recommended, DMMA will review the State Plan and State policy. To the extent that we find discrepancies between these documents, we will make appropriate changes.

Anticipated Completion Date:

Reference Number: 2014-028
Related Prior Year Finding: N/A
State Department Name: Department of Health and Social Services
State Division Name (if applicable): Division of Medicaid and Medical Assistance
Federal Agency: Department of Health and Human Services
Federal Program: Medicaid Cluster
CFDA Number: 93.775, 93.777, 93.778
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: No
Compliance Requirement: Eligibility
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

For 14 out of 80 applicants selected for testing, the Division of Medicaid and Medical Assistance (DMMA) (i) was unable to provide forms signed under "penalty of perjury" to show yearly recertification or initial application for eight, (ii) was unable to provide documentation to show that the applicant's income had been certified through the Income Eligibility Verification System for 10, (iii) an undocumented immigrant was incorrectly deemed to be eligible for three. Benefits provided to the 14 recipients were $79,406 while the total benefit to the 80 applicants reviewed were $812,493. The total benefits paid during FY2014 amounted to $968,426,988 for 176,164 applicants.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

There are specific requirements that must be followed to ensure that individuals meet the financial and categorical requirements for Medicaid. These include that the State or its designee shall:

B(1) Written Application

"Require a written application signed under penalty of perjury and include in each applicant's case records facts to support the agency's decision on the application (42 USC 1320b-7(d); 42 CFR sections 435.907 and 435.913)."

B(2) Income 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).”

B(4) Verify Social Security Number

“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(5) Qualified Alien Status

“Document qualified alien status if the applicant or recipient is not a U.S. citizen (42 USC 1320b-7d).”

Cause:

The missing applications are due to personnel failure to upload the application into the Document Imaging System (DIS) and/or the misplacement of the original application in the paper file. Also, DCIS-II does not have a routine to trigger the social workers for any non-compliance to the eligibility requirements such as for income and eligibility verification and undocumented immigrants.

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. Additionally, DMMA may not detect or deter non-compliance such as for income and eligibility verification and undocumented immigrant, and DSS may continuously allow participants to benefit from the program even though they are no longer in compliance with the federal requirements.

Questioned Costs:

There are $79,406 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. Additionally, the State’s policies and procedures should include system edit checks within DCIS-II to ensure the information are up-to-date.

Views of Responsible Officials:

1. Unfortunately DSS/DMMA provided documentation too late for KMPG to fully resolve all questioned costs.

2. During the review period DSS experienced excessive turnover with respect to the staff member who is responsible for the SAVE forms. The agency believes that fact contributed to this exception.

3. We would also like to indicate that DHSS is in the process of modernizing the eligibility system which is being implemented in phases and is now called DEMS. Phase 1 was implemented in the Fall of 2014

and now utilizes the federal data services hub to automatically conduct income eligibility verifications and citizenship prior to making an eligibility determination enhancing the verification process.

4. DSS/DMMA will continue to review documentation associated with the questioned costs in order to resolve the outstanding issues.

Agency Contact Name: Ray Fitzgerald & Betty Garrett

Agency Contact Phone Number: 302-255-9645

Corrective Action Plan:

1. The SAVE Coordinator will track the SAVE forms monthly to ensure that the information has been entered into DIS to ensure compliance information is documented.
2. DSS will centralize our audit responses and contacts so we can respond to proposed exceptions more timely.

Anticipated Completion Date:

6/30/2015

Reference Number:	2014-029
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Medicaid and Medical Assistance
Federal Agency:	Department of Health and Human Services
Federal Program:	State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges
CFDA Number:	93.525
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The testing of three out of twelve monthly "Budget Supplemental Reports" revealed that it is required to be filed with cumulative expenditures from grant inception to the date of the report. The following errors were present within the December 2013, March 2014 and June 2014 reports, but not detected during management's review and submission:

For the period ended June 30, 2014

Account	Reported	Per FSF	Variance- $	Variance- %
State Personnel	212,286	162,374	49,912	31%
Fringe	91,281	62,561	28,720	46%
Travel	73,014	18,883	54,131	287%
Supplies	19,959	2,939	17,020	579%
Equipment	-	-	-	0%
Contractual	7,906,496	12,945,573	(5,039,077)	-39%
Consultant	3,283,665	-	3,283,665	100%
Other	44,201	-	44,201	100%
Indirect Cost	11,228	13,220	(1,992)	-15%
Total	**11,642,130**	**13,205,551**	**(1,563,421)**	**-12%**

For the period ended March 31, 2014

Account	Reported	Per FSF	Variance- $	Variance- %
State Personnel	212,275	146,923	65,352	44%
Fringe	91,276	56,256	35,020	62%
Travel	73,537	18,338	55,199	301%
Supplies	19,959	4,440	15,519	350%
Equipment	-	4,255	(4,255)	-100%
Contractual	721,787	-	721,787	100%
Consultant	9,076,315	9,459,344	(383,029)	-4%
Other	57,295	-	57,295	100%
Indirect Cost	11,228	8,593	2,635	31%
Total	**10,263,672**	**9,698,148**	**565,524**	**6%**

For the period ended December 31, 2013

Account	Reported	Per FSF	Variance- $	Variance- %
State Personnel	212,275	133,678	78,597	59%
Fringe	91,276	50,622	40,654	80%
Travel	73,537	19,416	54,121	279%
Supplies	19,959	1,648	18,311	1111%
Equipment	-	-	-	0%
Contractual	721,787	2,674,162	(1,952,375)	-73%
Consultant	9,076,315	4,074,863	5,001,452	123%
Other	57,295	2,152	55,143	2563%
Indirect Cost	11,228	8,593	2,635	31%
Total	**10,263,672**	**6,965,134**	**3,298,538**	**47%**

Criteria:

Control Exceptions

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance Exception

Per Attachment B, Section 10 (b) of the Cooperative Agreement for the State of Delaware to Support Establishment of the Affordable Care Act's Health Insurance Exchanges - Special Terms and Conditions, the State is required to submit a Budget Supplement report on a monthly basis should include expenditures incurred through two months prior to the reporting deadline. These should agree with the accounting records of the State.

Cause:

There was turnover of grant administration personnel, and there was no transition procedure from the previous Program Management Team to the current team. This resulted in missing documentation, lack of document retention, and/or limited access to data that supports the monthly budget supplement. Program management utilized external excel files to track transactions. Additionally, the program does not have a procedure in place to obtain and reconcile expenditures from other State divisions which are included within the reports, such as the Division of Management Services (DMS). Lastly, several mathematical and other errors are due to preparer error and the absence of a detailed review.

Effect:

Misstated federal financial reports result in the Federal Government having inaccurate information about the expenditures that were incurred by the program. These reports are cumulative and the amounts from June 30, 2014 are carried forward potentially causing subsequent reports to be incorrect. Since all amounts drawn down are based on the State’s financial system, amounts drawn were not affected.

Questioned Costs:

The impact of unreconciled reporting variances is not determinable.

Recommendation:

We recommend that the Department of Health and Social Services submit a revised report to correct these misstatements. We further recommend that the Department of Health and Social Services implement policies and procedures surrounding obtaining and reconciling the expenditure support and FSF reports from all departments incurring costs relating to the ACA Program prior to preparation and submission of the Federal Financial reports. We also recommend implementation of a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the report.

Views of Responsible Officials:

Agency Contact Name: Stephen Groff

Agency Contact Phone Number: 302-255-9626

Unfortunately the Division of Medicaid and Medical Assistance did not have documented procedures in place to give guidance to staff regarding the reconciliation of expenditures to the State Accounting System and preparation of the federal reports for this grant. . Additionally, due to the lack of transition during staff turnover, procedures were not available for new staff to follow which led to the cited reporting errors.

As of 7/1/14 the management of this grant has been transferred to the Delaware Health Care Commission in the DHSS Office of the Secretary.

Corrective Action Plan:

The financial reports are cumulative reports. Reported expenditures were reconciled to expenditures contained in the State Accounting System beginning with the Federal report for the month ending 10/31/14.

Since the reports are cumulative, the underreported expenditures were corrected as of that report and subsequent reports.

In December 2014 the following additional actions were taken.

Written documented procedures are in place for report preparation and the individual preparing the Federal report and divisional fiscal staffs work together in reviewing, reconciling and updating all State Accounting and Federal system entries on a monthly/quarterly basis. In addition, as part of the report preparer and divisional fiscal staff collaboratively working together and cross checking each other, screen shots documenting data contained in the State and Federal systems are being systematically printed out, logged for each monthly/quarterly report. These reports will be used to prove the reconciliation of reported expenditures to SEFA expenditures.

Anticipated Completion Date:

November 2014

Reference Number:	2014-030
Related Prior Year Finding:	2013-013
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	**Division of Medicaid and Medical Assistance**
Federal Agency:	Department of Health and Social Services
Federal Program:	**State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges**
CFDA Number:	93.525
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Reports submitted to the federal agencies did not agree to expenditures presented on the Schedule of Expenditure of Federal Awards (SEFA) which comes from the State's general ledger. Program management and the Division of Management Services (DMS) were unable to provide explanations or reconcile the below variances:

ACA 93.525			
	06/30/14	**Variance to SEFA**	**Percent Variance**
Federal Expenditures Per SEFA	10,348,153		
Federal Expenditures Reported	8,783,229	1,564,924	17.82%

Criteria:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The SEFA is prepared by the auditee, and must be presented fairly in all material respects in relation to the auditee's financial statements as a whole. The SEFA represents the expenditures subject to audit under the Single Audit as discussed in the below regulation:

> *45.CFR.92.20 (b) The financial management systems of other grantees and subgrantees must meet the following standards:*
>
> *(1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant;*
>
> *(2) Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.*

The regulation effectively requires that the Federal Financial reports are to be supported by the official books and records of the grantee.

Cause:

There are many potential causes for differences in the numbers reported above including 1) scope of grants included in federal financial reports differing from SEFA reports, 2) adjustments being made to reporting that cross programs or periods, 3) differences in coding of underlying data in the reporting module, and, 4) errors made by program personnel. The differences cannot be reconciled because there is no procedure in place for the State agencies to reconcile total expenditures reported in the financial reports to the Federal Government as compiled from the State's general ledger system (FSF) to the reports from FSF that are the source of the SEFA.

Effect:

Expenditures reported in federal financial reports may be misstated which results in the Federal Government having inaccurate information about the expenditures that were incurred by the programs. See finding 2014-029 for known errors in financial reporting.

Questioned Costs:

The impact of unreconciled reporting variances is not determinable.

Recommendation:

We recommend that the Divisions ensure they are performing reconciliations of expenditures per federal financial reports to expenditures coded to their CFDA numbers in FSF.

Views of Responsible Officials:

Agency Contact Name: Stephen Groff

Agency Contact Phone Number: 302-255-9626

Unfortunately the Division of Medicaid and Medical Assistance did not have documented procedures in place to give guidance to staff regarding the reconciliation of expenditures to the State Accounting System and preparation of the federal reports for this grant. Additionally, due to the lack of transition during staff turnover, procedures were not available for new staff to follow which led to the cited reporting errors.

As of 7/1/14 the management of this grant has been transferred to the Delaware Health Care Commission in the DHSS Office of the Secretary.

Corrective Action Plan:

The financial reports are cumulative reports. Reported expenditures were reconciled to expenditures contained in the State Accounting System beginning with the Federal report for the month ending 10/31/14. Since the reports are cumulative, the underreported expenditures were corrected as of that report and subsequent reports.

In December 2014 the following additional actions were taken.

Written documented procedures are in place for report preparation and the individual preparing the Federal report and divisional fiscal staffs work together in reviewing, reconciling and updating all State Accounting and Federal system entries on a monthly/quarterly basis. In addition, as part of the report preparer and divisional fiscal staff collaboratively working together and cross checking each other, screen shots documenting data contained in the State and Federal systems are being systematically printed out, logged for each monthly/quarterly report. These reports will be used to prove the reconciliation of reported expenditures to SEFA expenditures.

Anticipated Completion Date:

November 2014

Reference Number: 2014-031
Related Prior Year Finding: 2013-023
State Department Name: Department of Health and Social Services
State Division Name (if applicable): Division of Child Support Enforcement (DCSE)
Federal Agency: U.S. Department of Health and Human Services
Federal Program: Child Support Enforcement
CFDA Number: 93.563
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: No
Compliance Requirement: Allowable Costs (Effort Reporting)
Control Finding: Yes
Compliance Finding: No
Scope Limitation: No

Condition:

DCSE employees complete Time and Effort Certifications to document the time charged by employees to various State and Federal initiatives. They are prepared by the employee and reviewed by a supervisor. Payroll expenditure testing for allowable costs revealed that two out of sixty-five Time and Effort Certifications were not properly approved and reviewed by a supervisor in a timely manner for multiple pay cycles. Time and Effort Reports were completed in August and October 2013 and were signed by the supervisor in September 2014 after being requested for audit.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provide that: (i) The governmental unit’s system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Cause:

The exceptions occurred because these employees are part of the Delaware Department of Justice (DOJ) and the Division of Child Support Enforcement did not have procedures established that require supervisor review and approval of time charged to the federal grants from employees outside of its department before March 21, 2014.

Effect:

Employees may have unapproved payroll charges to the federal grant.

Questioned Costs:

There are no questioned costs related to this control finding.

Recommendation:

We recommend that DCSE continue to enhance controls by ensuring there is timely review of an adequate level for Time and Effort Certifications. We suggest that DCSE conduct annual training on the regulations, policy and procedure associated with effort reporting and include the training as part of new employee orientation, and communicate these requirements to DOJ periodically.

Views of Responsible Officials:

Agency Contact Name: Charles Hayward

Agency Contact Phone Number: 302-395-6520

Corrective Action Plan:

DCSE and the DOJ instituted corrective action for the condition in March 2014 based on KPMG’s prior year recommendation. However, the two time and effort certifications identified during audit testing were for pay periods prior to implementation of DCSE and DOJ’s corrective action. DCSE will continue to communicate with the DOJ that all time and effort certifications must be signed by the employee’s supervisor. In addition, DCSE has completed a Memorandum of Understanding with the DOJ which is awaiting implementation. In that document the DOJ agrees to provide accurate and authenticated effort reporting to DCSE with the billing for Federal Financial participation. That documentation will be reviewed by DCSE when received and any errors or omission returned for correction immediately.

Anticipated Completion Date:

Corrective action is completed. The MOU has been signed by the Department of Justice is now moving through the signatory process in DCSE.

Reference Number:	2014-032
Related Prior Year Finding:	2013-030
State Department Name:	Department of Health and Human Services
State Division Name (if applicable):	Division of Public Health
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreement
CFDA Number:	93.074 (93.069/93.889)
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Allowable Costs (Effort Reporting)
Control Finding:	Yes
Compliance Finding:	No
Scope Limitation:	No

Condition:

For sixteen out of sixty-five payroll transactions sampled, either (i) the Time and Effort certification was not prepared in accordance with A-87; or (ii) the Time and Effort certification was not reviewed in a timely manner. The employees charged $19,040 to the program out of our sample of $104,269. Total payroll costs expended for the program was $2,192,806 out of $7,035,350 in total Program expenditures. The following exceptions were identified:

- Twelve (12) out of 65 payroll charges tested were not reviewed in a timely manner by the supervisor. The delay in review ranged from 38 to 317 days. One certification for the period ended February 28, 2014 was reviewed in September 2014, when requested for the audit. The total charged to the grant for these items was $17,222.
- Four (4) out of sixty-five payroll transactions tested did not have the time and effort certification signed by the employee or the supervisor for the period requested. Additionally, 2 of these transactions could not be reconciled to the salary expense charged to the grant based on the timesheet support provided. The amount charged for these 2 selections totaled $782. The total charged to the grant for these 4 items was $1,818.

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 Program was in the process of implementing revised policies on time and effort reporting in response to a prior year audit finding. The policy includes the requirement, basis and importance of effort reporting, frequency and need to align/recode payroll charges to reflect effort as a required and ongoing process. The policy was not completely implemented until August 2014, which falls after the fiscal year under audit.

Effect:

Employees are recording payroll charges that are not properly documented to a Federal grant.

Questioned Costs:

Questioned costs related to unapproved, inappropriate or untimely time and effort certifications in the sample are $19,040.

Recommendation:

We recommend that DPH enforce its revised policies and procedures in preparation of the time and effort certification to ensure compliance with the Federal requirements. The effort reporting requirements should be communicated frequently to all employees and embedded in the training to communicate to all employees the policies, rules, and regulations related to effort reporting.

Views of Responsible Officials:

Of the $19,040 in questioned costs, $14,776 (13 of the 16 questioned payroll transactions) were related to DPH staff that support this grant. We would like to make the following points.

- 7 of the 16 payroll transactions (questioned costs of $11,802) are for staffs that exclusively work 100% on and in support of the PHEP grant, which their effort reports reflect. Unfortunately the supervisors did not complete their review in a timely fashion. None the less the work activities and cost are allowable and exclusively support the PHEP program.

- 1 of the 16 payroll transactions (questioned costs of $830) was also for a staff person that exclusively worked 100% on in supporting the PHEP grant. In the case of this staff person, the employee resigned in May 2014, did not sign the quarterly effort report and the supervisor did not sign until July 2014. It should be pointed out that prior effort reports that were properly signed/reviewed support that this person worked 100% on the PHEP grant. Unfortunately prior to leaving, the employee did not sign the effort report and the supervisor did not complete their review until July 2014. None the less the work activities and cost are allowable and exclusively support the PHEP program.

- 3 of the 16 payroll transactions (questioned costs of $1,361) are for staffs that partially support the PHEP grant. Unfortunately the supervisors did not complete their review in a timely fashion. None the less the work activities and cost are allowable and support the PHEP program.

- 2 of the 16 payroll transactions (questioned costs of $782) are for an employee that partially supports the PHEP grant. Unfortunately the effort reporting was incomplete and these costs will be recoded to State funds.

Of the $19,040 in questioned costs, 3 of the 16 payroll transactions ($4,264 in questioned costs) were related to IRM staffs that support the grant.

- We would like to point out that throughout this audit period the employees reported/entered their time/effort into a secure password protected automated tracking system by minutes in a day which were subsequently allocated based on time reported by pay cycle. The employee signing into the system is in effect their signature. If an initial payroll charge for a pay cycle did not reflect the effort reported, (A) an adjustment is calculated via a reconciliation process and (B) charges corrected via

Payroll Funding Adjustments (PFA) to reflect the work and time/effort reported. For the employees in question, there was no variance between the amount to be charged to the grant (based upon the time the employee entered into the tracking system) and the amount actually charged to the grant (including any PFA adjustments).

- For one of the 3 IRM staff, the supervisor did not sign off on the time. Although A-87 does not require the supervisor's signature on the time record– it is a good control measure to have a supervisory review which will be incorporated into policy/procedures outlined in the corrective action. For the other 2 IRM staff, unfortunately the supervisors did not sign in a timely manner.
- None the less, for all 3 IRM staff, the costs reflected on the employees time tracking are allowable under this grant.

Agency Contact Name: DPH: Deborah Fisher. IRM/Department: Harry Roberts

Agency Contact Phone Number: DPH: (302)744-4742 IRM/Department: (302) 255-9235

Corrective Action Plan:

DPH

The above finding occurred due to the absence of key personnel that handled the distribution and tracking of time certifications. EMSPS has corrected this procedure to ensure that we have people assigned to step in when the main person is absence. We have also added management level review of all time certifications to ensure they are received in a timely manner. This was put in place 01/31/2015.

IRM Corrective Action

For the IRM staff, as of 7/1/14 a new password protected time keeping system was instituted whereby staff enter their time replacing the password protected system described above. Supervisory approval is done via e-mail and archived which was instituted 7/1/14.

DHSS Departmental Corrective Action

A formal departmental policy on time and effort reporting has been formulated and is targeted to be issued by 3/31/15 for all applicable staff and supervisors to follow. The policy includes the requirement, basis and importance of effort reporting, frequency, the need to document effort and have supervisory approval, and need to align/recode payroll charges to reflect effort as a required and ongoing process. Additionally, in July, August and September 2014, time and effort reporting training was provided to departmental staffs who complete effort reports and to the managers who supervise those staff.

Anticipated Completion Date:

DPH: Procedure - 01/31/15. Recode to State funds by 6/30/15. IRM: 7/1/14. DHSS: July, August, September 2014, March 31, 2015.

Reference Number: 2014-033
Related Prior Year Finding: N/A
State Department Name: Department of Health and Social Services
State Division Name (if applicable): Division of Public Health
Federal Agency: U.S. Department of Health and Social Services
Federal Program: HIV Care Formula Grants (Ryan White Program)
CFDA Number: 93.917
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: No
Compliance Requirement: Allowable Costs (Effort Reporting)
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

Payroll expenditure testing revealed nine (9) of the forty payroll transactions examined did not have the time and effort certification signed by the employee or the supervisor for the quarters or months requested. The amount charged to the grant for these pay cycles was $2,499 out of our sample of $21,433. In addition, five (5) of these certifications did not agree to the payroll expenditures charged to the grant resulting in $1,240 in underreported expenditures.

The total population of payroll transactions in fiscal year 2014 subject to testing was $261,021 while the total expenditures for the program were $4,582,623.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled.

(OMB Circular A-87, Attachment B.8.h.6)

Cause:

The exceptions all occurred because the employees are part of the DHSS IRM Department and the Division of Public Health does not have procedures established that require review and approval of time charged to the Federal grants from employee outside DPH.

Effect:

Program is recording the incorrect payroll charges to the federal grant.

Questioned Costs:

Questioned costs related to unapproved time charged to the grant are $2,499.

Recommendation:

We recommend that DHSS IRM Department and enhance its policies and procedures in preparation of the time and effort certification and/or time study reports to ensure compliance with the federal requirements. We suggest that the time study report should indicate IRM employees' time charged to specific programs or that an approved alternate form of time allocation be implemented. We suggest that DHSS, Ryan White and IRM Department conduct annual training on the regulations, policy and procedure associated with effort reporting and include the training as part of new employee orientation.

Views of Responsible Officials:

4 of the 9 payroll charges cited under "Condition" amount to $1,514.00 (of the Questioned Costs of $2,499.00) and are for two (2) Casual Seasonal employees who are Senior Health Program Representatives for the Ryan White Program and the Medical Monitoring Project (MMP). The salaries were approved by the granting agencies and 100% of their time is exclusively spent conducting interviews and medical record abstractions. Their cost is split 50% of their time for the Ryan White program and 50% of their time with Medical Monitoring Project (MMP) as the data they collect is equally and exclusively shared by the two programs. As a result, the payrolls for these staff were split equally (50%) between both programs.

Unfortunately the employees did not complete effort reports. None the less, their time and costs are allowable and allocable to the Ryan White grant.

5 of the 9 payroll charges cited under "Condition" amount to$985.00 (of the Questioned Costs of $2,499.00) and are for a staff member of the Information Resource Management unit. This person provides IT support to the Ryan White program. We would like to point out that throughout this audit period the employees reported/entered their time/effort into a secure password protected automated tracking system by minutes in a day which were subsequently allocated based on time reported by pay cycle. The employee signing into the system is in effect their signature. If an initial payroll charge for a pay cycle did not reflect the effort reported, (A) an adjustment is calculated via a reconciliation process and (B) charges corrected via Payroll Funding Adjustments (PFA) to reflect the work and time/effort reported. For the employee in question, the variance between the amount to be charged to the grant (based upon the time the employee entered into the tracking system) and the amount actually charged to the grant (including any PFA adjustments) resulted in an undercharge of $254.76 to the grant.

Although A-87 does not require the supervisor's signature on the time record– it is a good control measure to have a supervisory review which will be incorporated into policy/procedures outlined in the corrective action. None the less, the work activities and costs reflected on the employee's time tracking are allowable under the Ryan White program.

Agency Contact Name: Deborah Fisher/Stanley Waite

Agency Contact Phone Number: 302-744-4742/302-744-1050

Corrective Action Plan:

DPH Corrective Action

The Ryan White Program will institute a process for program staff ending employment to verify certifications to the budget and allocate the differences to each federal grant at the time of departure.

The Ryan White program will also recommend all certifications are maintained on file at the Ryan White Program.

IRM Corrective Action

For the IRM staff, as of 7/1/14 a new password protected time keeping system was instituted whereby staff enter their time replacing the password protected system described above. Supervisory approval is done via e-mail and archived which was instituted 7/1/14.

DHSS Departmental Corrective Action

A formal departmental policy on time and effort reporting has been formulated and is targeted to be issued by 3/31/15 for all applicable staff and supervisors to follow. The policy includes the requirement, basis and importance of effort reporting, frequency, the need to document effort and have supervisory approval, and need to align/recode payroll charges to reflect effort as a required and ongoing process. Additionally, in July, August and September 2014, time and effort reporting training was provided to departmental staffs who complete effort reports and to the managers who supervise those staff.

Anticipated Completion Date:

DPH: March 31, 2015. IRM: 7/1/14. DHSS: July, August, September 2014, March 31, 2015.

Reference Number:	2014-034
Related Prior Year Finding:	2013-014, 2013-029
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Public Health
Federal Agency:	Centers for Disease Control and Prevention
Federal Program:	Immunization Cluster
CFDA Number:	93.268
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Allowable Costs (Effort Reporting)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

For four (4) out of 65 payroll charges selected for testing, the Time and Effort Certifications were not provided. These 4 payroll charges are for one employee for multiple pay cycles. The four payroll charges are equal to $5,086 out of our sample of $37,340. Total payroll expended by the program was $925,699.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled.

(OMB Circular A-87, Attachment B.8.h.6)

Cause:

The exceptions all occurred because the employees are part of the DHSS IRM Department and the Division of Public Health does not have procedures established that require review and approval of time charged to the Federal grants from employee outside DPH.

Effect:

The program is recording the incorrect payroll charges to the federal grant without adequate documentation or supervisory review.

Questioned Costs:

Questioned costs related to unapproved, incorrect or inappropriate time and effort certifications in the sample are $5,086.

Recommendation:

We recommend that DHSS IRM Department and enhance its policies and procedures in preparation of the time and effort certification and/or time study reports to ensure compliance with the federal requirements. We suggest that the time study report should indicate IRM employees' time charged to specific programs or that an approved alternate form of time allocation be implemented. We suggest that DHSS, Immunization and IRM Department conduct annual training on the regulations, policy and procedure associated with effort reporting and include the training as part of new employee orientation.

Views of Responsible Officials:

The 4 payroll charges cited under "Condition" amounting to the $5,086.00 under "Questioned Costs" are for a staff member of the Information Resource Management unit. This person provides IT support to the Immunization program. We would like to point out that throughout this audit period the employee reported their time/effort into an automated tracking system by minutes in a day worked on a specific grant and/or program which is subsequently allocated based on time reported by pay cycle. If an initial payroll charge for a pay cycle did not reflect the effort reported, (A) an adjustment is calculated via a reconciliation process and (B) charges corrected via Payroll Funding Adjustments (PFA) to reflect the work and time/effort reported.

For the employee in question, the variance between the amount to be charged to the grant (based upon the time the employee entered into the tracking system) and the amount actually charged to the grant (including any PFA adjustments) resulted in an undercharge of $.01 to the grant.

Agency Contact Name: Harry Roberts

Agency Contact Phone Number: 302-255-9235

Corrective Action Plan:

For IRM staff, as of 7/1/14 a new password protected time keeping system was instituted whereby staff enter their time replacing the password protected system described above. Supervisory approval is done via e-mail and archived which was instituted 7/1/14.

A formal departmental policy on time and effort reporting has been formulated and is targeted to be issued by 3/31/15 for all applicable staff and supervisors to follow. The policy includes the requirement, basis and importance of effort reporting, frequency, the need to document effort and have supervisory approval, and need to align/recode payroll charges to reflect effort as a required and ongoing process.

Anticipated Completion Date:

New IRM time keeping system on 7/1/14 including archiving supervisory approval e-mails. DHSS time and effort reporting policy 3/31/15.

Reference Number:	2014-035
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Public Health
Federal Agency:	U.S. Department of Agriculture
Federal Program:	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC)
CFDA Number:	10.557
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Procurement and Suspension and Debarment
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

For two of the three vendors sampled, we found that the required procedures for Procurement and Suspension and Debarment were not followed as described below:

- For one out of three vendors sampled, the vendor was deemed to be a sole source vendor; however, there was no documentation to justify sole sourcing being communicated to the Division or the Department as required. This vendor received $120,846 during the year ended June 30, 2014.
- For two of the three vendors sampled, the required suspension and debarment search prior to the contract acceptance and any succeeding years thereof, were not performed. The two vendors (including the vendor above) received $148,021 during the year ended June 30, 2014.

The total expended to the three vendors sampled was $232,296, and the total procurement expenditures by the program was $1,215,589 for 18 vendors.

Criteria:

Control exceptions:

States, and governmental subrecipients of States, will use the same State policies and procedures used for procurement and suspension and debarment from non-Federal funds. They also must ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Compliance Exceptions:

Title 29, Chapter 69, Subchapter VI. Professional Services, Subsection 6985 of the Delaware code, sole source procurement state:

a. A contract may be awarded for material or nonprofessional services without competition if the agency head, prior to the procurement, determines in writing that there is only 1 source for the required material or nonprofessional service. Sole source procurement shall not be used unless there is sufficient evidence that there is only 1 source for the required material or service and that no other type of material or service will satisfy the requirements of the agency. The agency shall examine cost or pricing data, which shall include lifecycle costing analysis as specified in §§ 6902 and 6909A(b) of this title if the sole source offers more than 1 type or variety of equipment, prior to an award under this section. Sole source procurement shall be avoided, except when no reasonable alternative sources exist. A written determination by the agency stating the basis for the sole source procurement shall be included in the agency contract file. Textbooks and related instructional materials are sole source purchases.

b. An agency seeking a sole source procurement shall prepare written documentation citing the existence of a sole source condition. The document shall include the specific efforts made to determine the availability of any other source and an explanation of the procurement need. The agency may, for confirmation, submit this documentation to the Section for review and comment prior to the intended date of award.

c. The agency shall negotiate with the single supplier, to the extent practicable, a contract advantageous to the agency. The agency shall enter into a formal contract stating the terms and conditions of the procurement.

Moreover, 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 nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA) and available at https://www.sam.gov/portal/public/SAM/ (note: EPLS is no longer a separate system; however, the OMB guidance and agency implementing regulations still refer to it as EPLS), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Cause:

The procurement process was handled by the Program Management because the two vendors are exclusively providing products and services to the Program. Program Management was not aware of the required steps as listed above.

Effect:

WIC program may not have procured the most cost effective services for the federal grant.

Questioned Costs:

Questioned costs related to procurement and suspension and debarment are $148,021.

Recommendation:

When determining if contracts meet the sole source criteria, the WIC program should adequately document the determination in accordance with Title 29, Chapter 69, Subsection 6925(b). Otherwise, contracts for these services should be subjected to the normal bidding practices.

WIC must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA) and available at https://www.sam.gov/portal/public/SAM/ (note: EPLS is no longer a separate system; however, the OMB guidance and agency implementing regulations still refer to it as EPLS), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300)

Views of Responsible Officials:

It should be pointed out that although suspension and debarment should have been verified in in EPLS for the two vendors, fortunately neither vendor was an excluded party.

For the one vendor cited as sole source, this vendor is used by 18 states and WIC programs as the exclusive vendor for the brochures being purchased. The nutrition educational materials were created by the vendor and subsequently customized them specifically for the Delaware WIC program. The materials are exclusively manufactured, sold and distributed by the company – hence they are the sole source. DPH has purchased these materials based on this premise. None the less, DPH will pursue a Sole Source Waiver letter from the Department Secretary immediately. The costs associated with these vendors are allowable costs under the WIC program.

Agency Contact Name: Deborah Fisher/Joanne White

Agency Contact Phone Number: 3022-744-4742/741-2913

Corrective Action Plan:

The WIC program will submit a sole source letter to the Department for approval prior to procurement for good and services equal to or exceeding $25,000.

The WIC program will verify by consulting the EPLS and collect a certification that vendors are not suspended or debarred or otherwise excluded from participating in transactions.

Anticipated Completion Date:

3/1/15

Reference Number:	2014-036
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Public Health
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Centers for Disease Control and Prevention Investigations and Technical Assistance
CFDA Number:	93.283
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Allowable Costs (Effort Reporting)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Payroll expenditure testing revealed Time and Effort reports were not properly approved and reviewed by a supervisor for multiple pay cycles, were not certified after the fact, or were otherwise incorrectly prepared as noted below for ten out of forty payroll transactions examined. The employees charged $7,268 to the program out of our sample of $26,234. Total payroll expended for the program was $1,270,902. The following exceptions were found:

- For six (6) out of 40 payroll charges, employees' time and effort certification reports were not completed.
- Three (3) out of 40 payroll charges, the employees' time and effort certifications and/or time distributions tested did not agree to time actually charged to the program.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Cause:

The exceptions occurred because these employees are part of a seasonal employment program and the Division of Public Health does not have procedures established that require supervisor review and approval of time charged to the Federal grants for Seasonal Employees. The exceptions involving incorrect certifications occurred as a result of the program not using the certified percentage of time spent working on a grant to determine the payroll allocated. Both the control and compliance exceptions resulted from employee human error and ineffective supervisor review.

Effect:

The program is recording the incorrect or unapproved payroll charges to the federal grant.

Questioned Costs:

Questioned costs related to unapproved, incorrect or inappropriate time and effort certifications in the sample are $7,268.

Recommendation:

We recommend that DPH enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort reports as well as enhancing its policies and procedures in recording the results of the time and effort certification to ensure compliance with the federal requirements. In addition, we recommend that DPH put in place a process to review and approve time charged to the program by seasonal employees. We recommend that DPH conduct annual training on the regulations, policy and procedure associated with effort reporting and include the training as part of new employee orientation.

Views of Responsible Officials:

Agency Contact Name: Lisa Henry

Agency Contact Phone Number: 302-744-1040

- 1 of the 10 payroll transactions (questioned costs of $764) was for a staff person that worked 30% of her time supporting the National Cancer Prevention grant. In the case of this staff person, the employee retired in May 2014. Unfortunately, prior to leaving, the employee did not sign the effort report. None the less the work activities and cost are allowable and support the National Cancer Prevention Grant program and the percent of effort charged is consistent with prior periods.

- 2 of the 10 payroll transactions (questioned costs of $908) was for a casual seasonal staff person that worked 100% of their time is exclusively evaluating, coordinating of contracts and oversight of the media and outreach programs. Their cost is split 25% National Cancer Prevention Grant program and 75% State funds as the grant is only approved to pick up 25% of their cost. Unfortunately the employee did not complete effort reports. <u>None the less, 25% of their time and costs are allowable and allocable to the National Cancer Prevention Grant program and we have asked for approval of their time from the federal PGO.</u>

- 2 of the 10 payroll transactions (questioned costs of $1,585) was for a staff person that worked 45% of their time supporting the National Cancer Prevention Grant program and is responsible for analyzing, organizing and managing data as a resource. Unfortunately the employee did not complete effort reports. <u>None the less, 45% of their time and costs are allowable and allocable to the National Cancer Prevention Grant program and we have asked for approval of their time from the federal PGO.</u>
- 1of the 10 payroll transactions (questioned costs of $272) was for a casual seasonal staff person that provides 100% of work activities to direct client serves as a Case Manager. Their effort is exclusively to and their cost split to two grants: 70% National Cancer Program and 30% Integrated Cancer Program. +Unfortunately the employee did not complete effort reports. <u>None the less, 70% of their time and costs are allowable and allocable to the National Cancer Prevention Grant program and we have asked for approval of their time from the federal PGO.</u>
- 3 of the 10 payroll transactions (questioned costs of $3,740) was for the Public Treatment Administrator that worked for the National Cancer Program. The employee did complete effort reports however actual payroll charged to the grant was $623 less (an undercharge) than the reported effort. <u>The time and costs are allowable and allocable to the National Cancer Prevention Grant Program despite the undercharge.</u>

Corrective Action Plan:

DPH

Effective quarter ending 12/31/2014, the program instituted procedures for casual/seasonal employees to submit timely, certified time and effort reports. The program has also implemented the process that employees that are leaving sign a time and effort statement upon their last day.

DHSS Departmental Corrective Action

A formal departmental policy on time and effort reporting has been formulated and is targeted to be issued by 3/31/15 for all applicable staff and supervisors to follow. The policy includes the requirement, basis and importance of effort reporting, frequency, the need to document effort and have supervisory approval, and need to align/recode payroll charges to reflect effort as a required and ongoing process. Additionally, in July, August and September 2014, time and effort reporting training was provided to departmental staffs who complete effort reports and to the managers who supervise those staff.

Anticipated Completion Date:

DPH: PGO response targeted by 6/30/15. DHSS: July, August, September 2014, March 31, 2015.

Reference Number:	2014-037
Related Prior Year Finding:	2013-028
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Public Health
Federal Agency:	United States Department of Agriculture Food and Nutrition Service
Federal Program:	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC)
CFDA Number:	10.557
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	No
Scope Limitation:	No

Condition:

Effective April 2013, the Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) Program replaced its old data system used for processing WIC information with a new system called WIC on the Web (WoW) which is hosted by a third party service provider. The WoW System is used to track participant eligibility as well as information on vouchers issued, redeemed, cancelled, and reissued.

The WIC program obtained the SSAE 16 SOC I report from the third party provider as of September 2, 2014. However, the SOC I is a Type I report and therefore does not opine on the effectiveness of the controls around the system.

Criteria:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

When using a service provider for critical systems the COSO requirements regarding review and monitoring should be incorporated into an organization's internal controls. Part 6 of OMB's Compliance Supplements identifies the following elements of monitoring:

Monitoring is a process that assesses the quality of internal control performance over time.

- Follow up on irregularities and deficiencies to determine the cause.
- Internal quality control reviews performed.
- Management meets with program monitors, auditors, and reviewers to evaluate the condition of the program and controls.

Cause:

The DHSS' current policy does not specify that the provider's SOC I report address not only the test of design and implementation of the controls but also its operating effectiveness.

Effect:

The IT general control weaknesses could go undetected and result in inaccurate processing of data or unauthorized access to systems.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

DHSS and agencies supporting the systems utilized for WIC should implement adequate IT general controls to address the system weaknesses identified. Management should implement controls to:

1) Obtain and review SOC I Type II 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:

1) The DPH WIC program contacted the Chief of Information Technology (CIT), Maryland WIC program regarding obtaining a SOC I Type II report. The CIT has indicated he will comply with the WIC program's request for a SOC I Type II annual report on an annual basis.
2) On 1/4/13 the DHSS IRM unit (in association with DTI) created IRM Administrative Document #28, DHSS IT System Security and Review Assessments, which addresses reviews over system security.

Agency Contact Name: Deborah Fisher/Joanne White, WIC Director

Agency Contact Phone Number: 302-744-4742/302-741-2900

Corrective Action Plan:

1) The Delaware WIC program in response to the audit finding of 2014-DPH-06 issued by KPMG requested that the MD WIC program require the WIC systems vendor 3Sigma Systems to obtain from an outside vendor a review of the WIC system called a SOC2 report. This review will include a required focus on operational controls. The control systems covered include security, availability, confidentiality, processing integrity and privacy.
2) IRM systems security policy is in place.

Anticipated Completion Date:

SOC I Type II: annually on or about October. Policy on review of system security: 1/4/13.

Reference Number: 2014-038
Related Prior Year Finding: N/A
State Department Name: Department of Health and Social Services
State Division Name (if applicable): Division of Public Health
Federal Agency: U.S. Department of Health and Human Services
Federal Program: Centers for Disease Control and Prevention Investigations and Technical Assistance
CFDA Number: 93.283
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: No
Compliance Requirement: Eligibility
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

The Screening for Life (SFL) system maintained at the DHSS Biggs Data Center for the State of Delaware is used to track participant eligibility and information for Cancer screening for the National Breast and Cervical Cancer Early Detection Program and the Integrating Colorectal Cancer screening program. Those accessing the SFL System rely on the system for the determination of Eligibility.

- For all 65 participants in the program tested, there was no review performed by program management before the final determination of eligibility was made, to validate the accuracy of the information entered into the SFL system. This info entered by the enrollment specialists is utilized to calculate and determine eligibility of participants for the SFL program.
- For One (1) out of 65 participants tested, the program management could not provide supporting document to validate that the participant had satisfied the residency, income, insurance and age/risk requirements for eligibility to participate in the SFL program. There were no medical claims submitted to or paid out by the program for this participant for the period from July 1, 2013 through June 30, 2014.
- For one (1) out of 65 participants tested, a participant in the program should not have been enrolled in the SFL program as they were already receiving benefits from the Medicaid program. The participant submitted claims of $45 of which $21 was paid.

Benefits paid for the 65 participants in our sample amounted to $42,525. The program paid benefits of $616,442 for 2,484 participants during State fiscal year 2014.

Criteria:

<u>*Control exceptions:*</u>

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 Delaware Division of Public Health's Screen for Life Policy manual states that, for individuals to qualify for services provided, they must meet each of the criteria regarding Income, insurance and age risk. Delaware Residents are eligible for Screening for Life if (i) they have a household income between 100% -250% of the Federal Poverty Level or (ii) they have an annual household income of less than 100% of the Federal Poverty Level and they are deemed ineligible for Medicaid.

The Screen for Life Policy manual also states that records should be kept in an electronic database and hardcopy file system.

The SFL program has two means of record keeping: an electronic database and a hard copy file system. Paper documents are kept in the hard copy filing system which is the central location for items such as client screening forms, enrollment forms, claim forms, eligibility letters, program ID cards and miscellaneous correspondence. Files are kept in designated locked file cabinets.

The Electronic database captures all eligibility information, screening data, billing data and case notes for each client.

Cause:

Program management does not have a manual control process in place to review and validate information input into the SFL system by the enrollment specialists before the final determination of eligibility is made, but solely relies on the SFL system to determine eligibility

Effect:

Incorrect or incomplete information can be entered into the SFL system which could lead to an incorrect determination of eligibility. Ineligible participants may be incorrectly receiving benefits.

Questioned Costs:

Questioned costs related to medical claims paid by the program for the participant which was ineligible to participate in the program due to receiving Medicaid benefits in the sample are $21.

Recommendation:

Management should implement controls to:

1) Review information entered into the SFL system by enrollment specialists before the final determination of eligibility is made.
2) Review proof of residency, income, insurance and age/risk information from applicants before the final determination of eligibility is made.
3) Verify proof that participants with less than 100% FPL have been denied or deemed ineligible for Medicaid benefits before the final determination of eligibility is made.

Views of Responsible Officials:

During the fiscal year reviewed, SFL launched a pilot initiative whereby enrollment specialists (called Health Promotion Advocates) were available in all Federally Qualified Health Centers, several hospitals, and a community center. During this time, SFL noticed errors in enrollments performed by the Health Promotion

Advocates in the community settings. SFL personnel provided several educational opportunities and trainings to improve error rates, however the efforts were not successful as errors continued. In July 2014, the SFL program brought all enrollment services back "in house" to rectify enrollment errors.

Agency Contact Name: Lisa Henry

Agency Contact Phone Number: 302-744-1040

Corrective Action Plan:

The program appreciates the recommendations provided and agrees with implementing processes and practices to improve the SFL program eligibility process.

Corrective actions:

1) All enrollment services were brought "in house". Current Enrollment Specialists review income, residency, insurance status, and know what services a client is eligible for prior to enrolling the client in the data system.
2) Beginning immediately, SFL will implement random reviews of enrollment after the Enrollment Specialist have entered a client in the system for eligibility determination. The Health Program Coordinator will be responsible for the reviews.
3) Beginning in July 2014, SFL started requiring all applicants with income less than or equal to 138% of the Federal Poverty level to apply for Medicaid prior to enrolling in SFL. Clients must have a Medicaid denial letter to be considered for enrollment in SFL. A monthly report is currently generated in the data system to identify anyone in the system with income at or below 138% of the Federal Poverty Level. The Health Program Coordinator reviews this report and researches the cases on the report to determine if the enrollment was performed correctly. If it was incorrect, the Health Program Coordinator corrects the case. This process will continue.
4) The $21 in questioned costs will be recoded to State funds.

Anticipated Completion Date:

All corrective actions have either already been implemented or will begin on March 5, 2015. Recode to State funds will occur by 6/30/15.

Reference Number:	2014-039
Related Prior Year Finding:	N/A
State Department Name:	Department of Health and Social Services
State Division Name (if applicable):	Division of Substance Abuse and Mental Health
Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Block Grants for Prevention and Treatment of Substance Abuse
CFDA Number:	93.959
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Allowability/Subrecipient Monitoring
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Non-payroll expenditure testing revealed twenty-one (21) out of the 40 non-payroll expenditures examined were not adequately supported. They were not accompanied by documents such as invoices, purchase orders and/or cancelled checks but only excel spreadsheets with general descriptions and therefore cannot conclude on the nature of the expenditures and its allowability. The 21 non payroll expenditures totaling $2,765,462, were from 5 sub-recipients during FY14 that the Program classified as vendors.

Additionally, Program Management has been erroneously categorizing their subrecipients as vendors. Program Management did not put in place appropriate policies and procedures to monitor subrecipients until June 1, 2014. Evaluation of three (3) out of 3 providers selected for testing revealed that they should be classified as subrecipients and subject to federal requirements surrounding subrecipient monitoring because they (i) provide services, (ii) received financial assistance to operate the program, (iii) are required to comply with federal compliance requirement, and (iv) are required to carry out the program goals. . Program management's records revealed that there were 25 sub-recipients during FY14, however, only 15 out of the 25 had expenditures during the year. All 25 providers were inappropriately categorized as vendors. The expenditures for these three subrecipients selected for testwork totaled $3,784,286 while the total sub-recipients' expenditures for all 15 were $5,902,811 (including the $2,765,462 identified as inadequately supported in our allowable cost testwork) or approximately 81% of the total expenditures for FY14 of $7,300,313

Criteria:

Control Requirement:

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 Requirement:

Allowability:

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.1, Basic Guidelines, state in part:

To be allowable under Federal awards, costs must meet the following general criteria:

(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.

Subrecipient Monitoring:

Per 31 USC 7502 (f) (2) (B), a pass-through entity is responsible for:

- *Determining Subrecipient Eligibility* – In addition to any programmatic eligibility criteria under E, “Eligibility for Subrecipients,” determining whether an applicant for a 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.

- *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.

- *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 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.

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.

Cause:

Program Management did not fully understand the distinction between a vendor and a subrecipient. Additionally, the Program did not have monitoring policies and procedures in place during the entire fiscal year which resulted in inadequate and ineffective review of submitted expenditures.

Effect:

Issues at the subrecipients could go undetected by the Department. Additionally, program expenditures may include expenditures for unallowable activities/disallowed costs.

Questioned Costs:

Questioned costs are the amounts paid to sub-recipients that were not fully monitored and could be no more than $5,902,811.

Recommendation:

We recommend that the Program develop a procedure to ensure that they effectively identify subrecipients during the year and accurately monitor them during the award period including obtaining OMB Circular A-133 audit reports and following up on any issues reported. We further recommend that the program implement a review procedure to obtain and review support for submitted expenditures by vendors/subrecipients.

Views of Responsible Officials:

Agency Contact Name: Darlene Plummer

Agency Contact Phone Number: 302-255-9430

In response to the auditor's concern: "…expenditures examined were not adequately supported. They were not accompanied by documents such as invoices, purchase orders and/or cancelled checks but only excel spreadsheets with general descriptions and therefore cannot conclude on the nature of the expenditures and its allowability"

DSAMH would like to provide the following information:

- DSAMH developed a standardized budget and invoice template in a Microsoft Excel spreadsheet for providers to use for submitting monthly invoices so that billings would be

> consistently submitted by all providers. DSAMH believed this would assist us in consistent classification of expenses through its contractual service delivery system. The EXCEL spreadsheet was a means by which providers can consistently bill (as opposed to paper). Additionally, the submission of an itemized invoice by the contractor (per terms of the contract) constitutes certification that the services or items for which payment is claimed were actually rendered by the Contractor or its agents, and that all information submitted in support of the claims is true, accurate, and complete.

<u>In response to the auditor's concern</u>: "Evaluation of three (3) out of 3 providers selected for testing revealed that they should be classified as subrecipients and subject to federal requirements surrounding subrecipient monitoring because they (i) provide services, (ii) received financial assistance to operate the program, (iii) are required to comply with federal compliance requirement, and (iv) are required to carry out the program goals." We would like to provide the following information to demonstrate our efforts in implementing our new fiscal/subrecipient protocols.

For the three (3) providers selected for testing, DSAMH carried out elements of subrecipient monitoring. For example, DSAMH completed the review of the independent audits for FY13 in FY-14. We had received the FY14 audit and completed our initial evaluation for one of the selected providers and were still within the designated six (6) month timeframe for the issuance of the management decision letter. The second provider requested and received an extension for the submission of their FY14 audit. The third provider is in arrears but has provided a copy of their corrective action plan to the US Department of Health and Social Services, Officer of Inspector General which we accepted.

Additionally, we would like to point out that we realize that the A-133 audit review is only one element in subrecipient fiscal monitoring. Recognizing this, during SFY-14 DSAMH began the process of expanding and bolstering its policies, procedures and protocols concerning subrecipient and vendor monitoring. Those improvements are outlined in several of the succeeding sections of our finding response.

<u>In response to the auditor's concern</u>: Additionally, Program Management has been erroneously categorizing their sub-recipients as vendors.

DSAMH is aware that some organizations may possess some characteristics of both a vendor and a sub-recipient. We will strive to consistently identify sub-recipients vs vendor relationships for each of our contracts. To assist us in this endeavor, we have requested technical assistance from our federal grant project officer.

<u>Respectfully, we would like to add the following to demonstrate our efforts in meeting the sub-recipient monitoring requirements:</u>

<u>*Subrecipient Monitoring:*</u>

Per 31 USC 7502 (f) (2) (B), a pass-through entity is responsible for:

Determining Subrecipient Eligibility – In addition to any programmatic eligibility criteria under E, "Eligibility for Subrecipients," determining whether an applicant for a 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.

> <u>The DSAMH contracts unit</u> performs a review of all of its vendor's eligibility in the System of Awards Management (SAM.GOV) before execution of the original contract and any subsequent

amendments to that contract. This is done to determine if there are any active exclusions against the vendor or any of their principal parties. We maintain a printed copy of this eligibility check in the contract files. A copy of one of these (Gateway Foundation) was provided to KPMG along with the contracts they had requested during the week of December 1, 2014.

Beginning in January 2014, the fiscal monitoring office began acquiring the DUNs through research and adding the number to the DSAMH Provider Fact Sheet. We researched this through SAM (System for Award Management (SAM.GOV) and the Harvester Website which is where sub-recipients file the SF-FAC collection form for the A-133 Audit. We did not have the opportunity to discuss this requirement with KPMG during their review and have this information in our files for all contractors. We outline and document this process in the DSAMH Fiscal Monitoring Manual Section III which indicates that we collect this information and include in our provider fact sheet. Section III begins on page 11 and in the attachments thereto (template 1a, 1b, 1c).

-*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.*

This information is included in any contract utilizing SAPT Block Grant Funds as Appendix B-1. Copies of several contracts were provided to KPMG as part of the review of the transactions selected for review. This was included in every contract funded with SAPT for the entire SFY14 period.

-*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.*

During SFY-14, DSAMH began the process of enhancing its monitoring processes. As a start, for two contracts which were 100% federally funded with SAPT Block Grant, we had in place an enhanced monthly invoice submission process which required the contract service provider to submit all supporting documentation in addition to the itemized invoice required by the contract. Several samples of these invoices and supporting documentation were provided to KPMG on November 20, 2015.

For contracts which were not 100% federally funded with SAPT Block Grant, while fiscal monitoring did not begin until late SFY-14, nonetheless we performed on-site clinical and programmatic monitoring to ensure the clinical services being purchased were being delivered in accordance with licensure and contract requirements. During the audit period in question, we developed our desk review process and defined our approach. Although the formal desk review process did not officially begin until June, 2014, we examined the following for the April1-June 30, 2014 billing period on a retrospective basis. From the 4 largest behavioral health service providers we randomly selected cost reimbursement contracts they held and subsequently randomly selected cost categories to audit those items of cost and back up documentation. Any discrepancies identified in the retrospective reviews resulted in a recoupment from the provider. We provided KPMG 3 samples of our desk reviews to show them the process being employed.

A less structured review of these invoices occurred on a monthly basis by a review of the contract manager and the fiscal officer prior to the processing of the payments prior to desk reviews). The expenditures reported were compared to the budget which had been negotiated, reviewed and accepted by DSAMH as being appropriate and necessary in support of the services to be delivered. If discrepancies were identified, the contract manager and/or fiscal officer would deny the item and notify the contractor that additional information was required. If the additional documentation was not provided, the item was not paid. We provided KPMG 2 samples of this on November 20, 2014.

-*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 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*.

Although the Fiscal Monitoring Procedures Manual was not officially in place until February, 2014, we received an A-133 Audit from one of DSAMH's largest behavioral health service provider who received SAPT funds on November 7, 2013 and conducted our first evaluation using our "draft" procedures on November 8, 2013. The management decision letter was issued to the contractor on April 22, 2014.

During the audit period in question, 25 independent audits were reviewed and had management decision letters issued. Twelve (12) of the independent audits were for SAPT funded entities and were completed by April, 2014. The listing of these entities and the dates of action (The Provider Last Audit List" were provided to KPMG in the fiscal monitoring procedure manual on October 31, 2014. The majority of the independent audits reviewed were sustained as there were no findings. We communicated extensively with some providers to provide technical assistance/instruction on the submission requirements, scope of audit (when A-133 was not applicable). We required corrective action plans if a provider was found in arrears of having independent audits completed.

The DSAMH fiscal monitor also discussed the review process, and provided KPMG staff with a copy of The Fiscal Monitoring Procedures Manual. The manual contains examples of these reviews and a listing of the last audits received from provider, the date of the completed evaluation and the issue date of the management decision letter.

It should also be noted that DSAMH has expanded the requirement that all of its contractual behavioral health service providers submit independent audits regardless of the funding source. The requirement is not restricted only to those providers receiving federal funds.

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.

The transaction sample for this audit did not include any for-profit sub-recipient organizations.

We have made significant improvements to our fiscal monitoring activities and continue to make enhancement as well as continue reviewing independent audits and issuing management decision letters. We are engaged in active and frequent communication with the financial staff in the provider organizations as we continue to conduct desk audits and encourage them to walk through their supporting materials with us. This is in addition to the ongoing clinical monitoring also being performed. As discussed shared with KPMG, DSAMH is undergoing a re-design of its behavioral health service system. We are discontinuing a cost reimbursement payment structure and implementing a Fee for Service reimbursement methodology for our contractual behavioral health service programs. We will need to expand our fiscal monitoring to include reviewing service claims. We will also be requesting guidance from our federal project officer on the preferred monitoring process of reviewing/validating the medical claims. We will continue working with our federal project officer to improve our understanding of classifying vendors vs. sub-recipients as well as being in compliance with, all fiscal monitoring requirements for vendors and sub-recipients.

We would like to underscore that the activities and costs associated with the transactions selected for review are allowable costs under the SAPT Block Grant.

Corrective Action Plan:

As recommended, we will re-examine our provider review/classification procedure and make changes as necessary to correctly classify vendors/sub-recipients. We will immediately develop and implement a sub-recipient and vendor determination checklist which will be reviewed by our fiscal monitor to ensure proper classification. The procedure will be expanded as to how to correctly classify service providers who are a sub-recipient in one DSAMH contract and also a vendor under a separate DSAMH contract. We have requested technical assistance from our federal project officer (January 12, 2015) to assist us in this determination.

As recommended, we will re-visit our invoice review process determine how to best improve the process of obtaining and reviewing support for submitted expenditures by vendors/sub-recipients. We need to obtain guidance on an allowable percentage of testing required to meet the monitoring expectations given limited staffing resources.

As recommended, we will continue to our review of independent audits (A-133 eligible and other majors), the issuance of management decision letters and the follow up on any issues reported. We will continue to enhance our review process incorporating OMB Circular revisions as they are issued.

As discussed with KPMG staff, we will continue to expand the fiscal monitoring activities to include on-site monitoring of sub-recipients in addition to the desk review process currently in use.

We will update the budget preparation instruction guideline manual to include allowability of expenses in accordance with compliance requirements identified in OMB Circular A-133 Compliance Supplement. We plan to have this revision ready for use by all DSAMH providers in late Spring 2015 for incorporation into the SFY16 contract cycle. At that time we will also distribute this material as part of every Request for Proposal issued to ensure potential behavioral health service providers are aware of their compliance responsibilities

We believe these activities will meet the concerns of this audit finding.

Auditors' Response:

Management has implemented significant new monitoring and control procedures late in the year audited or after the end of the fiscal year audited, as a result we have not modified the finding and the operating effectiveness of the new procedures will be tested in subsequent audits.

Anticipated Completion Date:

Internal re-examination of review process will be completed by March 1, 2015 with a final policy and procedure revision to incorporate changes resulting from technical assistance within 30 days of the TA.

On-going continuation and improvement of current process, policies and procedures to be reflective of impending change in reimbursement methodology for vendors.

Updated budget preparation instruction guidelines will be completed by April 30, 2015 and in use at the start of SFY16.

Reference Number: 2014-040
Related Prior Year Finding: N/A
State Department Name: Department of Health and Social Services
State Division Name (if applicable): Division of Substance Abuse and Mental Health
Federal Agency: U.S. Department of Health and Human Services
Federal Program: Block Grants for Prevention and Treatment of Substance Abuse
CFDA Number: 93.959
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: No
Compliance Requirement: Independent Peer Reviews
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

Program Management has not conducted any peer reviews during FY2014 (nor in the prior years) over the entities providing services to the Program. For FY2014, there are a total of 51 providers providing services to the Program. Program Management did not put in place appropriate policies and procedures to monitor its subrecipients until June 1, 2014. The total expenditures for these providers was $7,028,713 while the total expenditures for the program were $7,300,313.

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 42 USC 300x53(a) and 45 CFR section 96.136, the State must provide for independent peer reviews which access the quality, appropriateness, and efficacy of treatment services provided to individuals. At least 5 percent of the entities providing services in the State shall be reviewed. The entities reviewed shall be representative of the entities providing the services. The State shall ensure that the peer reviewers are independent by ensuring that the peer review does not involve reviewers reviewing their own programs and the peer review is not conducted as part of the licensing or certification.

Cause:

Program Management has not been successful in getting the providers to participate as the providers believe it infringes on their corporate confidential information as well as opens their business operations up to their competition. Despite language within written agreements requiring a peer review, the Program Management did not inform their providers about the importance of the independent peer reviews and the impact of or recourse for non-compliance with this requirement.

Effect:

The Program Management cannot verify the quality, appropriateness, and efficacy of treatment services provided by these entities to individuals.

Questioned Costs:

Questioned costs while indeterminable could be no more than $7,028,713.

Recommendation:

We recommend that DSAMH enhance controls by ensuring that compliance requirements and the strict adherence thereof are properly communicated to their providers. We also recommend that DSAMH enforce penalties for failure to comply.

Views of Responsible Officials:

Agency Contact Name: Marc Richman

Agency Contact Phone Number: 302-255-2747

In reviewing this finding, DSAMH would like to highlight several points.

DSAMH recognized the difficulties it was having in the area of peer reviews. Despite the fact that peer reviews were not occurring, DSAMH had in place a clinical monitoring and licensure certification process wherein it's Quality Assurance Unit made on-site monitoring visits to providers. As part of the monitoring process, individual client treatment files were randomly selected and reviewed/evaluated against licensure requirements which deal with quality of services provided/delivered, appropriateness of the services, etc. Copies of such monitoring reports were provided to KPMG to show what these monitoring visits entailed. While not a peer review, the monitoring was aimed at assessing providers and their services.

DSAMH requires that any funded contracting entity which contracts for, in excess of, $500,000/annum, must be accredited by a nationally recognized Accreditation organization such as CARF or the Joint Commission. Over 90% of the contractors DSAMH has assembled to provide treatment services to individuals with a substance use condition meeting this financial level and are accredited by national accreditation organizations. DSAMH monitors the status of each contractor annually for accreditation during its licensure review process. This process provides another level of review of quality of provider services.

Additionally, over the past 15 months DSAMH has extensively worked with a group of stakeholders, comprising governmental leaders, behavioral health treatment providers, consumers and consumer advocates in a significant reorganization of the DSAMH system of care as it relates to services for individuals with substance use conditions. As a result of this effort, the following actions/improvements have occurred or will occur.

- Worked in collaboration with the Delaware Division of Medicaid, and engaged a national consultant to re-design the funding of its behavioral health care system. The resulting system is based on ASAM levels of care.
- A Medicaid state plan amendment was submitted to CMS to expand coverage for behavioral health care for the Medicaid Fee For Service Program based on medical necessity criteria in ASAM.
- DSAMH participated with the Delaware Division of Medicaid in the new Medicaid Managed Care Organization re-procurement and subsequent contracting process relative to behavioral health service expectations.

- DSAMH has redesigned the state's licensure regulations for substance abuse treatment services to incorporate all ASAM levels of care. This was an interactive process with substance abuse treatment providers.

- DSAMH has begun issuing new Requests for Proposals and awarding new contracts to programs providing comprehensive treatment services. The new contracts are much more recovery oriented, focusing on the needs and strengths of the individual through time rather than care provided in strict, treatment silos.

- DSAMH continues to collaboratively work with the Delaware behavioral health provider organization, DELARF, to improve communications and assist with the program re-design implementation with its service providers.

Recognizing the problems experienced with implementing peer reviews, DSAMH has contacted their federal funding partner for technical assistance. DSAMH is in the process of exploring/clarifying accomplishing these peer reviews through the means of contracting out the peer review process through qualified individuals outside the current provider network as allowed by OMB regulations.

Finally, DSAMH believes that all of the questioned costs are allowable costs under the SAPT grant.

Corrective Action Plan:

1. In SFY-15 begin identifying qualified individuals to comprise an independent peer review team and contract with them to conduct the reviews.
2. As a deliverable, the independent peer review team will establish its review protocols (in conformance with SAPT peer review requirements), develop the implementation plan and timelines for completing the reviews. It is estimated that the peer review would begin in SFY-16.
3. We are consulting with our Deputy Attorney General to develop additional requirements for our contracts to ensure that the peer review team will be granted access to provider records as necessary to complete their peer review.

Anticipated Completion Date:

- Planning and design of independent peer review process to begin no later than March 1, 2015.

- Full implementation will occur in SFY16.

Reference Number:	2014-041
Related Prior Year Finding:	2013-032
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Employment and Training
Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act
CFDA Number:	17.258, 17.259, 17.278
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

We reviewed the 49 submitted ETA 9130 Federal Reports for December 31, 2013 and June 30, 2014 and although all 49 reports tested were reviewed by the appropriate individuals, the reports could not be agreed to supporting documentation as follows:

- 2 of 26 reports submitted as of June 30, 2014 did not agree to the underlying general ledger support resulting in an understatement of the Federal share of expenditures line item and consequently an overstatement of the Unobligated balance of Federal funds line item. One report understated expenditures by $313 while the second report understated expenditures by $316.
- For 26 of the 26 reports submitted as of June 30, 2014, the accrued expenses balance included in the federal share of expenditure line items were calculated using the incorrect allocation rates. The Program incorrectly used 1.41% as opposed to 2% which agreed to supporting documentation when allocating the Program’s statewide portion of indirect costs. The Program also incorrectly used 22% as opposed to 17.16% that agreed to supporting documentation when allocating the Secretary’s portion of indirect costs to the Program. The error resulted in an understatement of $5,807 for accrued indirect budget office costs and an overstatement of $2,145 for accrued Secretary of Labor costs.
- For 26 of 26 of the reports submitted as of June 30, 2014, the accrued expense balance was further incorrectly calculated as a result of the cost pools used in the calculation of the accrued budget office costs portion of the balance could not be reconciled back to the State’s financial accounting system, First State Financials (FSF). The error resulted in a further understatement of accrued Federal share of expenditures of $212.
- For 20 of 26 of the reports submitted as of June 30, 2014, the accrued Labor expense balance could not be reconciled to the original query used to prepare the reports The balances were calculated from the Delaware Job Links system, a separate system from FSF, and maintained in a spreadsheet by Workforce Investment Act (WIA) personnel. No reconciliation was performed to validate these amounts to total accruals in FSF and the balance could not be agreed to subsequent cash payments or be re-created to verify the completeness and accuracy of the reported accruals. The reported accrued expenditures from this system totaled $1,755,256.

KPMG notes the total expenditures for the WIA Program in fiscal year 2014 was $5,586,454.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Workforce Investment Act (WIA) program is required to report quarterly in 9130 Federal Financial Reports the expenditures incurred by the program, which should agree with the accounting records of the State.

Cause:

Clerical errors on the part of the preparer led to issues in the report and the review performed by management is not detailed enough to detect the reporting errors in the reports.

Effect:

Failure to appropriately review supporting documentation used to prepare reports and reconcile the portion of the accrual balances from DGL to FSF prior to submission can lead to federal reports not being accurately reported.

Questioned Costs:

Total questioned costs are not determinable.

Recommendation:

The program should update its policies and procedures in place to ensure more thorough reviews of reports and add an additional reconciliation to ensure that data that comes from other systems reconciles to the general ledger in First State Financials (FSF).

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DET agrees to update our procedures that are currently in place to include a periodic review of the formulas used in our spreadsheets to ensure accurate calculations in our federal reporting. We will also ensure that data that comes from other systems can be reconciled to the general ledger in FSF.

Anticipated Completion Date:

January 31, 2015

Reference Number:	2014-042
Related Prior Year Finding:	2013-035
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Unemployment and Training
Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act
CFDA Number:	17.258, 17.259, 17.278
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Allowable Costs (Effort Reporting)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The payroll funding reconciliations used to reconcile the State’s payroll database system (PHRST) and the Program’s internal time software (Autotime) were performed for all four quarters during the fiscal year. However, data was erroneously duplicated for certain line items resulting in $39,280 in over-reported payroll expenditures from the Autotime software. WIA is required to perform the quarterly analysis to determine if the Program is eligible to postpone making the quarterly adjustment for the difference between Autotime and PHRST in the State’s accounting system until the end of the fiscal year if it is under a certain dollar threshold. Due to the duplication error, the Program incorrectly concluded it was eligible to post the adjustment annually when if the reconciliations were accurate, an adjustment should have been posted every quarter.

Additionally, as of October 2014, the calculated adjustments to record actual time spent working on the grant for these quarters had not been recorded in the State’s accounting system, First State Financials (FSF). As a result of not recording payroll funding adjustments, all 40 payroll transactions tested were incorrect with the net effect of ($2,260). The total adjustment needed to accurately reconcile all four quarter is $98,325.

The population of payroll transactions in fiscal year 2014 subject to testing was $1,715,613 while total expenditures for the program were $5,586,454.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Per Circular A-87, Item #8, Compensation for Personal Services, Section (3h) & (4e):

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

  (a) More than one Federal award,

  (b) A Federal award and a non-Federal award,

(5) Personnel activity reports or equivalent documentation must meet the following standards:

  (a) They must reflect an after-the-fact distribution of the actual activity of each employee,

  (b) They must account for the total activity for which each employee is compensated,

  (c) They must be prepared at least monthly and must coincide with one or more pay periods, and

  (d) They must be signed by the employee.

    (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

    (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Cause:

The exceptions occurred because the WIA Program was in process of implementing new payroll policies and experienced staff turnover during the fiscal year.

Effect:

The Program is not properly reporting payroll expenditures for the year ended June 30, 2014 since the

PHRST data has not been updated for the adjustments needed during the year or for the correct time worked on the program's projects.

Questioned Costs:

There are no questioned costs for the Payroll Funding Adjustment error as the federal grant was undercharged.

Recommendation:

The WIA Program should record payroll funding adjustments timely. The Program should also ensure they are following procedures and policies regarding payroll funding reconciliations.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DET currently has a fully trained employee who will be able to perform payroll reconciliations and record payroll funding adjustments timely as to be in full compliance with the current policies and procedures.

Anticipated Completion Date:

December 31, 2014

Reference Number:	2014-043
Related Prior Year Finding:	2013-031
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Employment and Training
Federal Agency:	U.S. Department of Labor
Federal Program:	Workforce Investment Act
CFDA Number:	17.258, 17.259, 17.278
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Eligibility
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The case files reviewed for the 2014 audit had the following exceptions:

- For 3 of the 65 case files reviewed, although the files were appropriately reviewed by management, the client's eligibility determination was not documented accurately in the case file. The files did not include appropriate documentation to support the dislocated worker eligibility determination for the dislocated worker grant.

Criteria:

1. Eligibility for Individuals

a. *All Programs*

> *Selective Service* – No participant may be in violation of section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under that Act (29 USC 2939(h)).

b. *All Subtitle B Statewide and Local Programs*

(1) An adult must be 18 years of age or older.

(2) A dislocated worker means an individual who meets the definition in 29 USC 2801(9) which states "The term "dislocated worker" means an individual who—

(A)

(i) has been terminated or laid off, or who has received a notice of termination or layoff, from employment;

(ii)

(I) is eligible for or has exhausted entitlement to unemployment compensation; or

(II) has been employed for a duration sufficient to demonstrate, to the appropriate entity at a one-stop center referred to in section 2864(c) of this title, attachment to the workforce, but is not eligible for unemployment compensation due to insufficient earnings or having performed services for an employer that were not covered under a State unemployment compensation law; and

(iii) is unlikely to return to a previous industry or occupation;

(B)

(i) has been terminated or laid off, or has received a notice of termination or layoff, from employment as a result of any permanent closure of, or any substantial layoff at, a plant, facility, or enterprise;

(ii) is employed at a facility at which the employer has made a general announcement that such facility will close within 180 days; or

(iii) for purposes of eligibility to receive services other than training services described in section 2864(d)(4) of this title, intensive services described in section 2864(d)(3) of this title, or supportive services, is employed at a facility at which the employer has made a general announcement that such facility will close;

(C) was self-employed (including employment as a farmer, a rancher, or a fisherman) but is unemployed as a result of general economic conditions in the community in which the individual resides or because of natural disasters; or

(D) is a displaced homemaker.

(3) A dislocated homemaker means an individual who meets the definition in 29 USC 2801(10) which states The term “displaced homemaker” means an individual who has been providing unpaid services to family members in the home and who —

(A) has been dependent on the income of another family member but is no longer supported by that income; and

(B) is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment.

(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.

Cause:

The Program experienced employee turnover during the fiscal year and as a result, counselors handled increased caseloads from 30 cases per worker at June 30, 2013 to 43 cases per worker at June 30, 2014. The increase caseloads resulted in oversights in documentation within the files.

Effect:

Without proper supervisor review and documentation in the files, claimants who were not eligible under WIA criteria may inappropriately receive benefits from the Program.

Questioned Costs:

There are no questioned costs as the program was later able to provide support that the recipients met eligibility requirements for dislocated worker funding.

Recommendation:

The WIA Program should continue to reinforce policies and procedures' relating to management's review of case files, including the requirement of management to review all required documentation.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DET management will review Policy 4 – Eligibility with case managers and supervisors at our next monthly meeting. Management will stress the importance of the supervisory role to ensure all documentation to support eligibility is in the file prior to approving the case.

Anticipated Completion Date:

December 31, 2014

Reference Number: 2014-044
Related Prior Year Finding: 2013-040
State Department Name: Department of Labor
State Division Name (if applicable): Division of Unemployment Insurance
Federal Agency: U.S. Department of Labor
Federal Program: Unemployment Insurance
CFDA Number: 17.225, S-17.225
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: No
Compliance Requirement: Reporting
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

Certain attributes/components of the ETA 227 Overpayment Detection/Recovery Reports for the quarters ended December 31, 2013 and June 30, 2014 could not be agreed to supporting documentation.

The following errors occurred on the original ETA 227 reports submitted as of December 31, 2013 and are summarized in the table below:

For Section C – *Recovery/Reconciliation*, the report submitted did not agree to system generated reporting schedules for Receivables Removed at End of Period (-$79,513 difference).

The following errors occurred on the original ETA 227 EUC08 reports submitted as of December 31, 2013 and are summarized in the table below:

For Section C – *Recovery/Reconciliation*, the report submitted did not agree to system generated reporting schedules for UI Non-Fraud Receivables Removed at End of Period (-$49,506 difference).

The following errors occurred on the original ETA 227 reports submitted as of June 30, 2014 and are summarized in the table below:

For Section C – *Recovery/Reconciliation*, the report submitted did not agree to system generated reporting schedules for UI Non-Fraud State Income Tax Offset ($855 difference), UI Fraud Additions (-$47,440 difference) UI Non-Fraud Additions (-$11,250 difference), UI Non-Fraud Subtractions ($10,155 difference), and UCFE/UCX Non-Fraud Subtractions ($18 difference).

The following errors occurred on the original ETA 227 EUC08 reports submitted as of June 30, 2014 and are summarized in the table below:

For Section C – *Recovery/Reconciliation*, the report submitted did not agree to system generated reporting schedules for Cash ($133 difference), Written-off (-$3 difference), Additions ($829 difference, -$118 difference, $75 difference), Subtractions ($1,891 difference, $330 difference), and Outstanding at End of Period ($3,576 difference, -$7,840 difference).

Overpayment Detection/Recovery

Reg/EUC08/TEUC	Section	Line	Amount per Transmitted Report	Amounts per System Support	$ Difference
Regular	Section C – UI Non-Fraud	312	124,547	204,060	(79,513)
EUC08	Section C	312	205,243	254,749	(49,506)

6/30/2014 - ETA 227 Overpayment Detection/Recovery

Reg/EUC08/TEUC	Section	Line	Amount per Transmitted Report	Amounts per System Support	$ Difference
Regular	Section C - UI Non-Fraud	305	69,330	68,475	855
Regular	Section C – UI Fraud	310	24,081	71,521	(47,440)
Regular	Section C – UI Non-Fraud	310	31,200	42,450	(11,250)
Regular	Section C - UI Non-Fraud	311	15,122	4,967	10,155
Regular	Section C – UCFE/UCX Non-Fraud	311	395	377	18
EUC08	Section C	303	261	128	133
EUC08	Section C	309	2,134	2,137	(3)
EUC08	Section C	310	8,790	7,961	829
EUC08	Section C	310	9,876	9,994	(118)
EUC08	Section C	310	591	516	75
EUC08	Section C	311	4,852	2,961	1,891
EUC08	Section C	311	676	346	330
EUC08	Section C	313	854,621	851,045	3,576
EUC08	Section C	313	1,338,373	1,346,213	(7,840)

The program had $12,248,629 of FSF expenditures and $133,027,846 of Non-First State Financials (FSF) expenditures. Total expenditures were $145,276,475 during fiscal year 2014.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Unemployment Insurance Program is required to file various reports related to its oversight and compliance over the Federal funds it receives from the Department of Labor including:

> *ETA 227, Overpayment Detection and Recovery Activities (OMB No. 1205-0173)* – Quarterly report on results of SWA activities in principal detection areas of benefit payment control (ET Handbook 401).

Reports must be complete, accurate, and prepared in accordance with the required accounting basis as well as trace to accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards.

Cause:

The Program was training new personnel who were responsible for preparing the reports resulting in the errors. The errors were not detected by the reviewer.

Effect:

The Program is not properly reporting detailed information regarding overpayments, which could result in adjustments to future grants received from the U.S. Department of Labor.

Questioned Costs:

There are no questioned costs as the reporting is information about the activities of the UC department, not the program related expenditures reimbursed by the grant.

Recommendation:

The Program should develop a more detailed review process before sign-off and submission of the reports, including agreement to supporting documentation.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

Section C 2013-4 Report UI and EUC

Although the Delaware Division of UI (DE UI) does not have a system generated report for receivables removed, composing a report has been an ongoing project and is one of our priorities. DE UI is working continuously with IT to come up with a report that will accurately reflect the many transactions that are completed manually every day. This figure is now determined based on the calculation formula used for transmissions. In the fourth quarter of 2013 the figures did not match (agree) because the calculation formula was not applied correctly by our accountant and was not detected in the review process. DE UI has already added a third step in the review process. Specifically, a Benefit Payment Control (BPC) investigator is conducting, and will continue to conduct, a back-up independent review of the accountants work prior to submission of DE UI's report.

2014-2
UI
Section C: The $855.00 was a posting error and it was corrected prior to the auditor's exit.

Section C: DE UI will continue its best efforts to generate an automated report for the arithmetic used in this process. Regrettably in this instance a BPC accountant made some posting errors on the back up page that were missed during the review process. As stated above, DE UI has already added a third person review to this process to detect such errors until all computer generated reports have been created.

EUC08

Section C: The $133 and $3 differences were posting errors that were corrected prior to the auditors exit.

Section C: DE UI will continue its best efforts to generate an automated report for the arithmetic used in this process. Regrettably in this instance a BPC accountant made some posting errors on the back-up page that were missed during the review process. Again DE UI has already added a third person review to this process until all computer generated reports have been created.

Anticipated Completion Date:

June 30, 2015

Reference Number:	2014-045
Related Prior Year Finding:	N/A
State Department Name:	Department of Labor
State Division Name (if applicable):	Division of Unemployment Insurance
Federal Agency:	Department of Labor
Federal Program:	Unemployment Insurance
CFDA Number:	17.225, S-17.225
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	UC Program Integrity – Overpayments
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Monetary penalties levied and collected on fraudulent overpayments are to be deposited into the State's account in the Unemployment Trust Fund. Per our review of overpayments during the year, the monetary penalties levied were not deposited into the State's account in the Unemployment Trust Fund, and instead remained in another account, the Benefit Account subsequent to collection.

Through June 30, 2014, a total of $1,271 in monetary penalties had been collected on fraudulent overpayments established in fiscal year 2014. As of the October 2014, no process was in place to transfer this money to the State's account in the Unemployment Trust fund. In the sample of 40 overpayments reviewed, none had monetary penalties that had been re-paid at year-end.

The program had $12,248,629 of FSF expenditures and $133,027,846 of Non-First State Financial expenditures, for total expenditures of $145,276,475 during fiscal year 2014.

Criteria:

Control Exception

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

Pub. L. No. 112-40, enacted on October 21, 2011 and effective 21, 2013, amended sections 303(a) and 453A of the Social Security Act and sections 3303, 3304, and 3309 of the Federal Unemployment Tax Act (FUTA) to improve program integrity and reduce overpayments. Part of these amendments require states to impose a monetary penalty (not less than 15 percent) on claimants whose fraudulent acts resulted in overpayments. Upon receipt of payment of monetary penalties, the State is required to deposit the penalty into the State's account in the Unemployment Trust Fund.

Cause:

The UC Program Integrity – Overpayments requirement is a new requirement for fiscal year 2014. Program personnel were familiarizing themselves with processes related to the new requirement and interpreting specific requirements and had not implemented new procedures for the new test.

Effect:

The Program is not properly segregating payments specific to monetary penalties on fraudulent overpayments as specified by federal regulations. .

Questioned Costs:

There were no questioned costs as the finding relates to the activities of the UC department, not the program related expenditures reimbursed by the grant.

Recommendation:

The Program should develop and implement policies and procedures to ensure all requirements are being met for the new test.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

Tax Operations will work with BPC to change the account currently being used to accept recoupments. The change is necessary to ensure that the monetary penalties will be deposited to the trust fund. All changes will be consistent with 19 Del Code, 3131,3325,3357.

Anticipated Completion Date:

The anticipated completion date is June 30, 2015.

Reference Number: 2014-046
Related Prior Year Finding: N/A
State Department Name: Department of Labor
State Division Name (if applicable): Division of Unemployment Insurance
Federal Agency: U.S. Department of Labor
Federal Program: Unemployment Insurance
CFDA Number: 17.225, S-17.225
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: No
Compliance Requirement: Reporting
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

3 ETA 2112 UI Financial Transaction Summary Reports submitted as of December 31, 2013, March 31, 2014 and June 30, 2014 we reviewed lacked evidence of appropriate supervisor review prior to submission. In addition, the ETA 2112 report submitted as of June 30, 2014 did not agree to underlying supporting documentation resulting in a $3,934 understatement of the ending UI Benefit Payment Account balance at fiscal year-end.

The program had $12,248,629 of FSF expenditures and $133,027,846 of Non-FSF expenditures, for total expenditures of $145,276,475 during fiscal year 2014.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

The Unemployment Insurance Program is required to file various reports related to its oversight and compliance over the Federal funds it receives from the Department of Labor including:

> ETA 2112, *UI Financial Transaction Summary (OMB No. 1205-0154)* – A monthly summary of transactions, which account for all funds received in, passed through, or paid out of the State unemployment fund (ET Handbook 401).

Reports must be complete, accurate, and prepared in accordance with the required accounting basis as well as trace to accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards.

Cause:

Staff turnover resulted in the Program training new personnel who were responsible for preparing the reports. In addition, those responsible for reviewing the reports were new to their positions as well during the year and did not catch the errors or sign off on the reports as needed

Effect:

The Program is not properly reporting detailed information regarding the UI Benefit Payment Account balance.

Questioned Costs:

There are no questioned costs for the ETA 2112 Report as the error resulted an understatement of the ending account balance.

Recommendation:

The Program should consider developing a more detailed review procedure before sign-off and submission of the reports including agreement to supporting documentation.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

Steps have been put into place to ensure that appropriate review occur before submission. The supervisor of the unit will verify that the review occurs before forwarding to be submitted. Any missing signatures will be obtained at that time.

Anticipated Completion Date:

This issue has been corrected as of August 2014.

Reference Number:	2014-047
Related Prior Year Finding:	N/A
State Department Name:	Department of Safety and Homeland Security
State Division Name (if applicable):	Office of Highway Safety
Federal Agency:	U.S. Department of Transportation
Federal Program:	Highway Safety Cluster
CFDA Number:	20.600, 20.601, S-20.601, 20.602, 20.610, S-20.610, 20.612, 20.613
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Level of Effort
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	Yes

Condition:

The Highway Safety Cluster program did not maintain supporting documentation to demonstrate compliance with program level of effort requirements of 23 CFR part 1350: 23 USC 2010, 23 USC 410(a)(2), 23 USC 405(a)(2), 23 USC 408(e)(3)), and Section 2011(b) of the Safe Accountable Flexible Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) as listed below.

The program could not provide documentation, including evidence that the State maintained its aggregate expenditures from all other sources for the following programs at or above the average level of such expenditures in fiscal years 2003 and 2004, for the following programs:

- motorcyclist safety training programs and motorcyclist awareness programs,
- alcohol traffic safety programs,
- programs to reduce highway deaths and injuries resulting from individuals riding unrestrained or improperly restrained in motor vehicles,
- highway safety data programs, and
- child safety seat and child restraint programs.

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 Highway Safety Cluster program has the following level of effort compliance requirements:

- For *Incentive Grant Program to Increase Motorcyclist Safety* (CFDA 20.612), a State must maintain its aggregate expenditures from all other sources for motorcyclist safety training programs and motorcyclist awareness programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 USC 2010).

- For *Alcohol Impaired Driving Countermeasures Incentive Grants I* (CFDA 20.601), a State must maintain its aggregate expenditures from all other sources for alcohol traffic safety programs at or above the average level of such expenditures in fiscal years 2004 and 2005 (23 USC 410(a)(2)).
- For *Occupant Protection Incentive Grants* (CFDA 20.602), a State must maintain its aggregate expenditures from all other sources for programs to reduce highway deaths and injuries resulting from individuals riding unrestrained or improperly restrained in motor vehicles at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 USC 405(a)(2)).
- For *State Traffic Safety Information System Improvements Grants* (CFDA 20.610), a State must maintain its aggregate expenditures from all other sources for highway safety data programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (23 USC 408(e)(3)).
- For *Child Safety and Child Booster Seat Incentive Grants* (CFDA 20.613), a State must maintain its aggregate expenditures from all other sources for child safety seat and child restraint programs at or above the average level of such expenditures in fiscal years 2003 and 2004 (Section 2011(b) of SAFETEA-LU).

Cause:

Program management does not have a formal, effective management review process in place to monitor compliance with level of effort requirements. Program management stated that they were not required to provide documentation to NHTSA under SAFETEA-LU and, therefore, did not have documentation to provide for audit.

Effect:

Due to a lack of supporting documentation, the Program management cannot demonstrate that they are in compliance with program level of effort requirements. The Program may not be meeting the required level of effort as mandated by the federal agency. If the Program is not meeting level of effort requirements, there could be an impact on the Program’s ability to receive future grant awards.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

The Program should maintain supporting documentation to demonstrate compliance with program level of effort requirements of 23 CFR part 1350: 23 USC 2010, 23 USC 410(a)(2), 23 USC 405(a)(2), 23 USC 408(e)(3)), and Section 2011(b) of SAFTEA-LU. In addition, the Program should implement a formal management review process to monitor compliance with these level of effort requirements throughout the life of the grant.

Views of Responsible Officials:

The Office of Highway recognizes the need to provide documentation to support maintenance of level of effort and incorporated Maintenance of Effort (MOE) documentation into our yearly planning process in 2014.

Agency Contact Name: Jana Simpler

Agency Contact Phone Number: 302-744-2745

Corrective Action Plan:

MOE for 2013 and 2014 under Moving Ahead for Progress in the 21st Century (MAP-21) was provided to NHTSA in December 2014 and February 2015 respectively. MOE for 2015 will be provided to NHTSA in early 2016.

Anticipated Completion Date:

Completed.

Reference Number:	2014-048
Related Prior Year Findings:	04-CYF-01, 05-CYF-01, 06-CYF-01, 07-CYF-01, 08-CYF-01, 09-CYF-01
State Department Name:	Department of Services for Children, Youth, and Their Families (CYF)
State Division Name (if applicable):	
Federal Agency:	Department of Health and Human Services
Federal Program:	Foster Care – Title IV-E
CFDA Number:	93.658
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	All
Control Finding:	Disclaimer of Opinion
Compliance Finding:	Disclaimer of Opinion
Scope Limitation:	Disclaimer of Opinion

Condition:

The DHSS 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 that 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 of July 1, 2013 through June 30, 2014, the program was still not operating under a cost allocation plan submitted in accordance with 45 CFR § 95.509 and 45 CFR § 95.519.

Costs allocated using the original methodology approved in the 95-1 cost allocation plan for the program for the year ended June 30, 2014 were $646,004, representing 9.38% of the total program costs of $6,884,667.

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:

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:

(1) 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.

(2) A material defect is discovered in the cost allocation plan by the Director, DCA or the State.

(3) The State plan for public assistance programs is amended so as to affect the allocation of costs.

(4) Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid.

If a State has not submitted a plan or plan amendment during a given State fiscal year, an annual statement shall be submitted to the Director, DCA certifying that its approved cost allocation plan is not outdated. This statement shall be submitted within 60 days after the end of that fiscal year.” (45 CFR § 95.509)

If costs under a Public Assistance program are not claimed in accordance with the approved cost allocation plan (except as otherwise provided in §95.517), or if the State failed to submit an amended cost allocation plan as required by §95.509, the costs improperly claimed will be disallowed.

(a)(1) If the issue affects the program(s) of only one Operating Division and does not affect the programs of other Operating Divisions or Federal departments, that Operating Division will determine the amount of the disallowance and will also inform the State of its opportunity for reconsideration of the determination in accordance with the Operating Division’s procedures. Prior to issuing the notification, however, the Operating Division shall consult with the DCA to ensure that the issue does not affect the programs of other Operating Divisions or Federal departments.

(2) If the State wishes to request a reconsideration of the Operating Division’s determination, it must submit the request in accordance with the Operating Division’s procedures.

(b) If the issue affects the programs of more than one Operating Division, or Federal department or the State, the Director, DCA, after consulting with the Operating Divisions, shall determine the amount inappropriately claimed under each program. The Director, DCA will notify the State of this determination, of the dollar effect of the determination on the claims made under each program, and will inform the State of its opportunity for appeal of the determination under 45 CFR part 16. The State will subsequently be notified by the appropriate Operating Division as to the disposition of the funds in question. (45 CFR § 95.519)

Cause:

The program has not negotiated an agreed-upon amended cost allocation plan in accordance with the provisions of 45 CFR § 95.509 and 45 CFR § 95.519.

Effect:

Lack of an approved cost allocation plan for the period under audit could result in disallowed costs.

Questioned Costs:

Questioned costs are $646,004, the total indirect costs charged to the Program.

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 with in a letter dated May 25, 2005, included as an appendix to that report.

Views of Responsible Officials:

Please see DSCYF commentary under 'Corrective Action Plan' below.

Agency Contact Name: Christine Kraft

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 acknowledged receipt of the CAP which contained 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.

On June 30, 2012, DSCYF received initial commentary and questions concerning the contents of the proposed CAP from the US DHHS Division of Cost Allocation (DCA) New York, NY, the ACF Region III Office, Philadelphia, PA, and the Centers for Medicare and Medicaid Services (CMS) Region III Office, Philadelphia, PA. DSCYF reviewed the commentary and questions, and resubmitted the CAP August 2012.

DSCYF continued to respond to commentary and questions from US DHHS DCA, the ACF Region III Office, and CMS Region III Office throughout 2013 and 2014 as they were received from our federal partners.

As of February 2015, negotiations with the US DHHS Division of Cost Allocation (DCA) New York, NY, as well as the Centers for Medicare and Medicaid Services (CMS) and the Administration for Children and Families (ACF), Region III Offices, Philadelphia, PA, remain ongoing with the most recent version of the CAP having been submitted on November 17, 2014. It should be noted that with this most recent version DSCYF decided not to continue to pursue claiming for Division of Family Services Pre placement Foster Care Candidates and also decided not to pursue Medicaid administrative cost claiming for our Division of Youth Rehabilitative Services (DYRS) and these two items were removed from the proposed CAP. With the November 17, 2014 submission of the CAP, DSCYF also responded to a set of updated questions/comments from CMS and ACF.

Late February 2015, DCA has requested that DSCYF update and submit its CAP financial allocation spreadsheets to conform to the allocation categories contained in the new Random Moment Time Sample (RMTS) survey and determine an implementation date for the CAP. DSCYF is reviewing possible implementation dates to factor in the addition of the new RMTS to the existing Family and Children's Tracking System (FACTS I) which is the Department's Statewide Automated Child Welfare Information System (SACWIS), as well as the time needed to train DSCYF's caseworkers to utilize the new RMTS.

Anticipated Completion Date:

October 1, 2015

Reference Number:	2014-049
Related Prior Year Finding:	N/A
State Department Name:	Department of Services for Children, Youth, and Their Families (CYF)
State Division Name (if applicable):	
Federal Agency:	Department of Health and Human Services
Federal Program:	Foster Care – Title IV-E
CFDA Number:	93.658
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Eligibility
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

During the fiscal year ended June 30, 2014, the Program made payments to a population of 240 participants. For one out of a sample of 40 participants, the individual receiving program payments did not meet the eligibility criteria of 45 CFR section 1356.21 and 42 USC 679c(c)(1)(C)(ii)(I)). The individual was originally determined to be eligible for program funding on April 17, 2014. The determination, however, was made in error because the judicial determination language did not meet the reasonable efforts criteria, as indicated above. The error was identified through our testing as well as through the program's internal peer review process in the fall of 2014. The Program makes adjustments quarterly to correct and recode payment amounts made to individuals deemed ineligible. The Program corrected this error in January 2015.

Total payments made to the ineligible participant were $1,334 for the year ended June 30, 2014 while payments to the 40 participants were $221,437. Total program payments to the 240 participants were $1,057,909.

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 following program requirements exist for reasonable efforts to prevent removal determinations made in determining eligibility of individuals for the program:

Within 60 days from the date of the removal from home pursuant to 45 CFR section 1356.21(k)(ii), there must be a judicial determination as to whether reasonable efforts were made or were not required to prevent the removal (e.g., child subjected to aggravated circumstances such as abandonment, torture, chronic abuse, sexual abuse, parent convicted of murder or voluntary manslaughter or aiding or abetting in such activities) (45 CFR sections 1356.21(b)(1) and (k)). The judicial determination must be explicitly documented, i.e., so stated in the court order and made on a case by case basis.

(i) *Prior to March 27, 2000* – For a child who entered care foster care before March 27, 2000, the judicial determination that reasonable efforts were made to prevent removal or that reasonable efforts were made to reunify the child and family satisfies the reasonable efforts requirement (*Federal Register*, January 25, 2000, Vol. 65, Number 16, pages 4020 and 4088).

(ii) *On or after March 27, 2000* – For a child who enters foster care on or after March 27, 2000, the judicial determination that reasonable efforts were made to prevent removal or were not required must be made no later than 60 days from the date of the child's removal from the home (45 CFR section 1356.21(b)(1)). Acceptable documentation is a court order containing a judicial determination regarding reasonable efforts to prevent removal or a transcript of the court proceedings reflecting this determination (45 CFR section 1356.21(d)). For the first 12 months that a tribe's Title IV-E plan is in effect, the tribe may use *nunc pro tunc* orders and affidavits to verify reasonable efforts and contrary to the welfare judicial determinations for Title IV-E foster care eligibility (42 USC 679c(c)(1)(C)(ii)(I)), as added by Section 301, Pub. L. No. 110-351).

Cause:

Management does not have a formal, peer review process in place to review file documentation to ensure that supporting documentation matches what has been entered into the eligibility system or to ensure compliance with program eligibility requirements.

Effect:

Lack of a formal review process could result in payments being made to ineligible individuals.

Questioned Costs:

Questioned costs are the total payments made to the ineligible participant of $1,334.

Recommendation:

We recommend that management develop and implement a formal, peer review process to review file documentation to ensure that supporting documentation matches what has been entered into the eligibility system and to ensure compliance with program eligibility requirements.

Views of Responsible Officials:

After the ACF Federal Eligibility Review in 2012, the DSCYF Cost Recovery Client Eligibility Unit created a peer review process. The process was put into place to assist in assuring accurate eligibility determinations and to ensure training of new employees was appropriate. Since its institution, the unit has only been able to perform peer reviews on an "if time is available" basis for fully trained eligibility workers. For newly trained staff, the eligibility supervisor reviews each determination upon completion and immediately addresses any areas of deficiency.

Additionally, Cost Recovery has worked with the State of Delaware Family Court Judiciary to develop court orders that contain language that are more easily identifiable as meeting the IV-E eligibility requirements. Cost Recovery has also provided training to the Family Court Judges, the Office of Child Advocate, the Attorney General's office and the Division of Family Services to help ensure the necessary language for IV-E eligibility is contained within the court orders. This process was implemented within the past few years and has improved IV-E eligibility outcomes.

Corrective Action Plan:

The DSCYF Cost Recovery Client Eligibility Unit will perform a formal peer review process of 10% of the eligibility determinations completed each month by fully trained staff. The 10% will be randomly selected. For those staff that are still “in training” 100% of their eligibility determinations will be reviewed by the supervisor until such time as the supervisor determined the individual to be fully trained.

As noted in the finding, the Client Eligibility Unit did find the error prior to the audit. When an error is noted, if the error is found in the current quarter, Fiscal Services processes the re-coding of the payment immediately, however, the process for re-coding the payment for those errors that are part of a prior quarter, takes place in the month following the end of the quarter via the administrative claiming process as explained below.

DSCYF Fiscal Services processes current quarter foster care payment corrections within the FACTS Client Payments Accounting system and the State's First State Financials system as they are received from Cost Recovery's Client Eligibility Unit. Prior quarter payment corrections are processed in FACTS CPA and reported as prior quarter adjustments on a quarterly basis within the federal On Line Data Collection (OLDC) system on DSCYF's regular CB496 quarterly claim report. Prior quarter adjustments that are approved by the Administration for Children and Families are reflected on quarterly funding notices for the program. These adjustments often span both state and federal fiscal years. DSCYF Fiscal processes increasing or decreasing federal award adjustments as necessary to ensure that FSF award amounts reconcile with the award amounts shown in the federal payment management system. Adjustments remain available for up to two years in the federal PMS system. Toward the end of that period DSCYF retrieves prior federal fiscal year increasing adjustments as one time ASF revenue, or if the result is a net loss of funds, reimburses ACF for the overpayment.

Anticipated Completion Date:

A Cost Recovery Client Eligibility Unit peer review process has already been developed and implemented. We will institute the peer review process for 10% of the determinations (by random selection) to be effective 4/1/2015.

Reference Number: 2014-050
Related Prior Year Finding: 2013-044
State Department Name: Department of Transportation
State Division Name (if applicable): Department of Transportation
Federal Agency: U.S. Department of Transportation
Federal Program: Federal Transit Cluster
CFDA Number: 20.500; 20.507; S-20.507
Award Numbers: See Summary of Audit Results Note 1(i)
ARRA: Yes
Compliance Requirement: FFATA Reporting
Control Finding: Yes
Compliance Finding: Yes
Scope Limitation: No

Condition:

The Program had two subrecipients during the year that received Non-ARRA funding, however no Federal Funding Accountability and Transparency Act (FFATA) Report was submitted. The Program was unable to submit subrecipient data into the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) due to system limitations. The Program could not provide sufficient evidence that they attempted to resolve the issue so that they could submit the required report. As such, the Program did not demonstrate a good faith effort to comply with FFATA requirements. Total expenditures for the subrecipients totaled $1,422,095.

Criteria:

Control Exceptions:

The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance Exceptions:

Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting. The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts.

As provided in 2 CFR part 170 and FAR Subpart 4.14, respectively, Federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204- 10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act. Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. They first are required to register in Central Contractor Registration (CCR) (if they have not done so previously for another purpose, e.g., submission of applications through Grants.gov) and actively maintain that registration.

Reporting requirements shall include the following key data elements about the first-tier subrecipients and subawards under grants and cooperative agreements: subaward date, Subawardee DUNS number, amount of subaward, Subaward Obligation/Action Date, Date of Report Submission, and Subaward Number.

Cause:

Program management was unable to submit subaward data as a prime awardee in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) due to system limitations and no support could be provided that they attempted to resolve the issue.

Effect:

The Program is not reporting subawards to the Federal government.

Questioned Costs:

There are no questioned costs.

Recommendation:

The Program should enhance their policy for FFATA reporting to ensure reports are being properly submitted and they maintain evidence of resolving issues in trying to submit the reports.

Views of Responsible Officials:

Agency Contact Name: Earle Timpson

Agency Contact Phone Number: (302) 760-2678

Corrective Action Plan:

DelDOT obtained passwords and did submit data into the FSRS system on January 10, 2014. After that initial submission there was no feedback from FTA as to whether the data reconciled with their information or whether any additional fields needed to be filled with data. However, DelDOT did not enter updated information after that. During the KPMG Audit, DelDOT provided documentation of what was in the FFATA system for review by the auditors. Their response was that the information did show an effort by DelDOT towards compliance but they would follow up with their management team for guidance. In the future, DelDOT will submit the information for the period since January of 2014 and then make future monthly submissions.

Auditors' Response:

Documentation was not adequate to show good faith effort.

Anticipated Completion Date:

March 31, 2015

Reference Number:	2014-051
Related Prior Year Finding:	2013-043
State Department Name:	Department of Transportation
State Division Name (if applicable):	Department of Transportation
Federal Agency:	U.S. Delaware Department of Transportation
Federal Program:	Federal Transit Cluster
CFDA Number:	20.500; 20.507
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	Yes
Compliance Requirement:	Subrecipient Monitoring
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

Condition:

The Department's subrecipient monitoring procedures have the following weaknesses:

- There was no evidence of the Program receiving and reviewing the OMB Circular A-133 reports for 2 subrecipients during the year. Because the A-133 reports were not obtained, we could not determine if there were any findings related to the Program or if there had been any follow up for any findings in the A-133 audits.

The Program incurred $1,422,095 in project costs for these subrecipients. Total Program costs during the year were $13,433,328.

Criteria:

Control Exceptions:

The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance Exceptions:

When a subrecipient is given award money from the pass through entity, the pass through entity must ensure that they have properly identified to the subrecipient the terms of the award, that they must comply with federal requirements, ensure they are effectively monitoring the subrecipient, and that the subrecipient is conducting an audit every year if expending more than $500,000 of federal funds. A Pass Through Entity is responsible for:

Subrecipient Audits – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Cause:

Program management was implementing new policies and procedures during the current fiscal year based on prior year findings to ensure they obtain the A-133 Reports and follow up on corrective action plans. These new policies and procedures were still not implemented as of year-end.

Effect:

The Program did not properly monitor its subrecipients, which could result in problems with subrecipients going undetected by the Department.

Questioned Costs:

Questioned costs are $1,422,095 of un-monitored costs.

Recommendation:

We recommend that the Program ensure they follow the updated procedures and policies put into place during the fiscal year as they relate to obtaining A-133 reports and following up on corrective action plans.

Views of Responsible Officials:

Agency Contact Name: Earle Timpson

Agency Contact Phone Number: 302-760-2678

Corrective Action Plan:

During the investigative portion of the A-133 2014 Audit it was determined that while DTC had written procedures related to Subrecipient monitoring there was still insufficient evidence that DTC was meeting the requirements of the A-102 Common Rule. Since this finding DTC has renewed their efforts to ensure compliance. A meeting was requested with Amtrak officials and has been held. It was determined that Amtrak's Fiscal Year period is 10/1 to 9/30. DTC requested that Amtrak provide a copy of their annual audit to them. In addition, arrangements have been made for periodic meetings with Amtrak to enable improved monitoring of their projects and ensure internal controls are designed and implemented to achieve compliance with all federal laws and regulations. Similar discussions have commenced with SEPTA. On January 28, 2015, DelDOT received a copy of Amtrak's Single Audit Report for the year ending September 30, 2013. This document was provided to KPMG at the Exit Conference that same day.

Anticipated Completion Date:

April 30, 2015 (Allows time to show that several meetings were held with SEPTA and controls have been implemented).

Reference Number:	2014-052
Related Prior Year Finding:	2013-046
State Department Name:	Department of Natural Resources and Environmental Control (DNREC)
State Division Name (if applicable):	Division of Water Resources, Financial Assistance Branch (FAB)
Federal Agency:	Environmental Protection Agency
Federal Program:	Capitalization Grants for Clean Water State Revolving Funds
CFDA Number:	66.458
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Special Tests and Provisions (Fund Establishment, Loan Repayments, Fund Earnings, and Uses of Funds)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The Program had four loans entering repayment status in State Fiscal Year 2014. For one of the two loans tested, totaling $1,966,596, DNREC did not send notifications of “due dates” for the first loan repayments to subrecipients timely. As a result, payments did not begin within a year of the project completion date of October 31, 2010 listed in the loan agreement. The notification letter, dated October 2, 2013, included a first loan repayment due date of October 30, 2013. Based on the loan agreement, the letter should have been sent in October 2011, with repayment beginning that month. The four loans entering repayment status amounted to $5,986,090 while the two loans examined totaled $4,545,600.

Criteria:

Control exceptions:

The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Compliance exceptions:

Repayment of loans shall begin within one year after project completion, and loans shall be fully amortized over not more than 20 years after project completion (40 CFR sections 35.3110(b) and 35.3120(a) and the policy statement titled *Transfer and Cross-Collateralization of Clean Water Revolving Funds and Drinking Water State Revolving Funds* published in the October 13, 2000, *Federal Register* (65 FR 60940)).

Cause:

DNREC did not have a tracking system in place to allow management to monitor and track when a letter regarding first repayment should be submitted.

Effect:

DNREC was unable to ensure that repayment of loans started within one year after project completion.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

DNREC should implement a tracking system at the time of loan closing that allows management to determine when a letter regarding first repayment should be submitted so that the payments are made timely.

Views of Responsible Officials: -- pending approval of draft finding

Agency Contact Name: Terry Deputy, Project Manager

Agency Contact Phone Number: 302-739-9941

Corrective Action Plan:

DNREC revised the wording in the Financial Agreements during FY 2014 to reflect "projected completion date" and will use the revised wording going forward. Financial Agreements signed before FY 2014 were not revised to the new wording due to the costs incurred to both the Loan recipient and the program. This will be a recurring finding for all Loan agreements that were signed before FY 2014. The program does not view this finding as a risk to the ability of the borrower to pay the loan. The maturity date is set at settlement regardless of the completion date of the project, the term of the loan will not go beyond the maturity date set at settlement.

Anticipated Completion Date:

See above.

Reference Number:	2014-053
Related Prior Year Finding:	N/A
State Department Name:	Department of Natural Resources and Environmental Control (DNREC)
State Division Name (if applicable):	Division of Water Resources, Financial Assistance Branch (FAB)
Federal Agency:	Environmental Protection Agency
Federal Program:	Capitalization Grants for Clean Water State Revolving Funds
CFDA Number:	66.458
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Reporting
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The Program is required to file an annual SF-425 report for each grant outstanding during the fiscal year. Two SF-425 reports were filed for fiscal year 2014, totaling $41,358,515. For one of the two reports tested, DNREC did not accurately report the recipient share of expenditures for the period ending June 30, 2014. For grant CS-10000112, the SF-425 report recipient share amount of $5,998,276 was understated by $110,058. The correct recipient share amount, supported by First State Financials (FSF) reports, is $6,108,334. Our audit testing identified the error. Upon notification of the error in December 2014, DNREC submitted a revised SF-425 report that corrected the recipient share amount.

In addition, DNREC is required to submit a Federal Funding and Transparency Act (FFATA) report for each loan closed by the program. The Program closed three loans totaling $36,760,000 during the fiscal year. These FFATA reports should accurately detail the amount of each loan and a description of the purpose of each award. In testing two of the reports for loans totaling $36,160,000, we identified a reporting data entry error which caused one loan for $36,060,000 to be reported at a value of $360,600,000, resulting in a $324,540,000 overstatement.

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 financial reports are prepared by the auditee, and must be presented controls in place for the review of financial and special reports required to be filed by the Program are not operating effectively.

Compliance exceptions:

The Program is required to report annually in SF-425 Federal Financial Reports the recipient share of expenditures incurred by the Program, which should agree to the accounting records of the State.

Per 2 CFR part 170, Transparency Act implementation was phased in for contracts based on their total dollar value. Based on the Federal Acquisition Regulation (FAR) interim final rule, Transparency Act reporting is required for:

- Starting March 1, 2011 any newly awarded subcontract of $25,000 or more must be reported if the value of the Federal prim contract award under which that subcontract was awarded was $25,000 or more.

Reports must be complete, accurate, and prepared in accordance with the required accounting basis as well as trace to accounting records, supporting worksheets, or other documentation that link reports to the data.

Cause:

DNREC did not provide proper oversight during review process of the SF-425 and FFATA reports to ensure that all amounts reported appropriately reconciled to supporting documentation.

Effect:

Amounts reported via federal financial reports and FFATA reports were misstated and resulted in inaccurate information being submitted to the federal government.

Questioned Costs:

No questioned costs associated with this finding.

Recommendation:

We recommend that DNREC reinforce policies and procedures regarding the review of all reports to ensure that all amounts included in each report properly reconcile to supporting documents reports prior to submission to the federal government.

Views of Responsible Officials:

Agency Contact Name: Terry Deputy, Project Manager

Agency Contact Phone Number: 302-739-9941

Corrective Action Plan:

The SF-425 reports will be reviewed by staff to verify the amounts are reported correctly and match FSF reports. The report referenced is the Sept. 2013 FFATA Report. While entering the amount of the loan, inadvertently inserted an extra “0” at the end. Printed FFATA Report does not place any commas in the amount reported, during my review I did not notice that report stated amount as 360600000.00 in error instead of the 3606000.00 it should have been. Have submitted revised FFATA Report correcting the error and report has been accepted. Will review the amounts more closely in future reports.

Anticipated Completion Date:

Ongoing

Reference Number:	2014-054
Related Prior Year Finding:	2013-044
State Department Name:	Department of Natural Resources and Environmental Control (DNREC)
State Division Name (if applicable):	Division of Water Resources, Financial Assistance Branch (FAB)
Federal Agency:	Environmental Protection Agency
Federal Program:	Capitalization Grants for Drinking Water State Revolving Funds
CFDA Number:	66.468
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Allowable Costs (Effort Reporting)
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

The Program processed 1,514 payroll transactions totaling $1,494,656 in Fiscal Year 2014. In one of our sample of 40 payroll expenditures totaling $91,107, the amount of salary charged to the program was incorrectly calculated. According to the employee's time and effort report, 13.333% of their $4,569 monthly salary ($609) was to be charged, however the program incorrectly charged $670 which led to the program being overcharged by $61.

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 21employees 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 Program’s time and effort review process was not effective to ensure proper time and effort reporting for employees funded by federal programs.

Effect:

Employees recorded the incorrect payroll charges to the federal grant.

Questioned Costs:

Known questioned costs are the amount the grant was overcharged, $61.

Recommendation:

The Department of Natural Resources and Environmental Control (DNREC) should maintain properly prepared and signed personnel activity reports (effort reports) for all employees who work on multiple programs. They should also implement a review process to ensure that amounts being charged to each program are being calculated correctly and foot to supporting documentation.

Views of Responsible Officials:

Agency Contact Name: Terry Deputy, Project Manager

Agency Contact Phone Number: 302-739-9941

Corrective Action Plan:

FAB staff will review the payroll information in the PHRST system after it has been entered by the DNREC Payroll office to verify the time and effort reporting matches the employee timesheets. FAB will notify the Payroll office of changes, if needed, before the payroll is confirmed.

Anticipated Completion Date:

Ongoing

Reference Number:	2014-055
Related Prior Year Finding:	N/A
State Department Name:	Department of Natural Resources and Environmental Control (DNREC)
State Division Name (if applicable):	Division of Water Resources, Financial Assistance Branch (FAB)
Federal Agency:	Environmental Protection Agency
Federal Program:	Capitalization Grants for Drinking Water State Revolving Funds
CFDA Number:	66.468
Award Numbers:	See Summary of Audit Results Note 1(i)
ARRA:	No
Compliance Requirement:	Reporting – FFATA
Control Finding:	Yes
Compliance Finding:	Yes
Scope Limitation:	No

Condition:

DNREC is required to submit a Federal Funding and Transparency Act (FFATA) report for each loan closed by the program. The Program closed three loans totaling $6,220,600 during the State Fiscal Year Ended June 30, 2014 and submitted the required FFATA report under the Transparency Act. We tested two of these FFATA reports for loans totaling $3,694,300 and noted the following issues:

The FFATA reports were authorized and reviewed; however, the information recorded in each report did not agree completely to the contacts. Both reports tested incorrectly reported the subaward obligation/action date. One FFATA report for a subaward of $1,194,300 included a subaward obligation/action date of July 1, 2014. However, supporting financing agreement documentation reflects a date of April 29, 2014. The second FFATA report for a subaward of $2,500,000 included a subaward obligation/action date of August 1, 2014. However, the supporting financing agreement documentation reflects a date of April 30, 2014.

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 subrecipient reports are prepared by the auditee, and must be presented controls in place for the review of financial and special reports required to be filed by the Program are not operating effectively.

Compliance exceptions:

Per 2 CFR part 170, Transparency Act implementation was phased in for contracts based on their total dollar value. Based on the Federal Acquisition Regulation (FAR) interim final rule, Transparency Act reporting is required for:

- Starting March 1, 2011 any newly awarded subcontract of $25,000 or more must be reported if the value of the Federal prim contract award under which that subcontract was awarded was $25,000 or more.

Reports must be complete, accurate, and prepared in accordance with the required accounting basis as well as trace to accounting records, supporting worksheets, or other documentation that link reports to the data.

Cause:

The Program's management review process in place over FFATA reports was not operating effectively to ensure that reports are completely and accurately completed prior to submission.

Effect:

Key data elements included in FFATA reports may be incorrectly reported.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DNREC reinforce policies and procedures regarding the review of all reports to ensure that all amounts and data included in each report properly reconcile to supporting documents reports prior to submission to the federal government.

Views of Responsible Officials:

Agency Contact Name: Terry Deputy, Project Manager

Agency Contact Phone Number: 302-739-9941

Corrective Action Plan:

FFATA reporting was corrected for FY 2014.

Anticipated Completion Date:

January 28, 2015

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, 2014

Matrix of Findings by Federal Agency

Finding	USDA	DOL	DOT	EPA	ED	HHS
Prefix	**10**	**17**	**20**	**66**	**84**	**93**
2014-007					X	
2014-008	X				X	
2014-009					X	
2014-010					X	
2014-011					X	
2014-012					X	
2014-013					X	
2014-014					X	
2014-015					X	
2014-016					X	
2014-017					X	
2014-018						X
2014-019	X					
2014-020						X
2014-021						X
2014-022						X
2014-023						X
2014-024						X
2014-025						X
2014-026						X
2014-027						X
2014-028						X
2014-029						X
2014-030						X
2014-031						X
2014-032						X
2014-033						X
2014-034						X
2014-035	X					
2014-036						X
2014-037	X					
2014-038						X
2014-039						X

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Matrix of Findings by Federal Agency

Year ended June 30, 2014

Finding	**USDA**	**DOL**	**DOT**	**EPA**	**ED**	**HHS**
Prefix	**10**	**17**	**20**	**66**	**84**	**93**
2014-040						X
2014-041		X				
2014-042		X				
2014-043		X				
2014-044		X				
2014-045		X				
2014-046		X			X	
2014-047			X			
2014-048						X
2014-049						X
2014-050			X			
2014-051			X			
2014-052				X		
2014-053				X		
2014-054				X		
2014-055				X		

STATE OF DELAWARE

Summary Status of Prior Year Findings

Year ended June 30, 2014

STATE OF DELAWARE

Summary Status of Prior Year Findings
June 30, 2014

Agency	U.S. Department of Education
Fiscal Year	2014
Reference Number	2013-001
Related Prior Year Findings	N/A
Related 2014 Findings	2014-007
Program Name (CFDA No.)	Student Financial Assistance Cluster 84.007, 84.033, 84.063, 84.268
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Eligibility/IT
Criteria	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.
Condition	During our testing, we identified IT general control deficiencies in Delaware Technical Community College's (DTCC) applications, operating systems and databases including the Banner application, Oracle database and the Solaris operating system. DTCC tracks the eligibility of its students within Banner which uses an Oracle database to store the application data. The application and database are housed on a Solaris operating system. The IT deficiencies are as follows: *Password parameters have been established and implemented to meet the Policy requirements.* *Exception:* Password requirements for the Oracle database and Solaris system are not configured for history, complexity, or aging requirements. Additionally, Oracle is not configured with minimum length requirements and allows ten invalid log-in attempts. *Administrative Access to the systems is restricted to individuals who require such access to perform job functions.* *Exception:* Five of the thirty Oracle accounts with administrative access in the database are shared generic accounts which are used for daily user activity. The shared general accounts do not track the individuals who log into the Oracle system using the generic accounts. Two of the thirty Oracle accounts have administrative access at both the database and application level. Having access to both levels does not properly segregate duties. For the Solaris system, there are two generic accounts which have shared passwords. Both of these accounts can be used to switch users to root, which is the Solaris administrator account, and accountability for the user in question cannot be determined.

	Procedures exist and are followed to ensure timely action relating to requesting, establishing, issuing, suspending and closing user accounts. *Exception:* There are no formal policies or procedures in place for requesting and approving the creation of or removal of Solaris or Oracle accounts. Additionally, for three of the twenty-five terminated users reviewed access removal requests were not submitted timely by Human Resources to the IT department to remove access to the Banner application. One of the twenty-five terminated users reviewed did not have access revoked for Banner and Oracle through the end of the fiscal year.
Cause	The exception for password parameters occurred because there is no formal password policy established at DTCC and the IT department was not aware of the need for stronger passwords to the systems. The second exception occurred due to some of existing accounts being out dated and not updated in the past several years. Additionally, the IT department is made of a small group of people so generic accounts are utilized when logging in to provide technical support. The third exception occurred because the IT department did not realize a formal policy was needed for timely action relating to requesting, establishing, issuing, suspending, and closing user accounts. Also, there is a lack of communication between the Human Resource and IT departments for terminated users.
Effect	The IT general control weaknesses could result in the unauthorized access to the systems. Without adequate IT general controls, the systems utilized for the SFA program could be inappropriately accessed which could allow unauthorized entries into the system without management's knowledge or oversight.
Recommendation	We recommend that DTCC IT establish a formal password policy, as well as a formal policy for requesting, establishing, issuing, suspending, and closing user accounts. The IT Department also needs to ensure that accounts have separate passwords established and log in using their own unique identifier. Lastly, we recommend that the Human Resource and IT Department have constant communication of terminated employees to ensure IT removes their access to the system.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	***David Dill, Applications Director***
Agency Contact Phone Number	***302-857-1643***
Corrective Action Plan	**Exception 1:** 1.1 The college IT department has implemented a new system-enforced password policy for Oracle. Passwords must contain a minimum of 8 characters, requiring both letters and numbers with a maximum of 5 invalid login attempts. Oracle passwords are forced to be changed every 180 days. An internal password policy has been created for Solaris shell accounts. The policy requires a minimum of 8 characters with mixed case that include punctuation characters, and for the password to be changed every 180 days with the changes being recorded in the designated log. Delaware Tech is currently in the process

of virtualizing the Oracle server which will reside on a Red Hat based operating system. Implementation of system-enforced password aging, complexity and history will be researched for this new platform.

Exception 2:
2.1 The functional unit Oracle accounts are only accessed when required by Banner processes. To access privileged accounts, the employee must first obtain the account password from the Oracle database administrator, Simon Morris (Senior Applications Development Specialist). The employee must also generate the log documenting the access, including the purpose of the modification. When the employee has completed the Banner process, the Oracle database administrator will change the password in accordance with the Banner/Oracle password complexity requirement policy.

2.2 Of the two of thirty Oracle accounts with administrative access at both the table and application levels, one account was inadvertently created with the MODIFY role; however, due to other existing security measures, the account was incapable of using that role. The account has been assigned the standard SELECT role.

2.3 The two Solaris system "generic" accounts (1-Oracle and 1-Banner) in question have different passwords in accordance with the internal password policy defined in 1.1. Accountability is tracked through activity in the designated log (/var/adm/sulog). The originating user can be tracked back by correlating the IP of the person logged into the account at the time to the specific workstation, which is also supported through our Windows login audit records. The primary/sole administrator role is filled by Bob Rahe, Applications Engineer, with Simon Morris as the only backup.

Exception 3:
3.1 Personal Solaris accounts are not created, except for the Solaris administrator, Bob Rahe. The Banner Access Request form is the college's policy-enforced method of requesting and approving the creation and removal of Oracle accounts since 2004.

3.2

a. The college's IT department has facilitated the exchange of a monthly report from Human Resources that identifies terminated employees from PHRST (PER-015). This report is reviewed monthly as an auditing tool to verify all inactivation requests have been received from Human Resources and processed in Banner.
b. A PHRST report of all active employees college-wide is generated and reviewed quarterly for user account correlation. This process began in July 2013.
c. An internal audit of INB (Interactive Native Banner) user access is conducted by the functional area users (Student Module, Accounts Receivable, Admissions and Financial Aid) every May and November. This process began in 2009.

3.3 For the one of twenty-five sampled terminated users, the Banner Access Request form was not received by the college's IT department. Once identified and verified by the campus, this user's account access was revoked. The corrective actions taken in 3.2 apply to this exception.

Finding Status	Fully Corrected. ☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☒ (Improved/expanded action taken for exception 2.1.) No longer warranting further action.☐ **Completion Dates:** 1.1: Oracle Password Policy: November 7, 2013. Solaris Password Policy: February 28, 2014. 2.1: May 1, 2014. 2.2: November 7, 2013. 2.3: February 28, 2014. 3.1: [Restricted Access Enforced Since 2004]. 3.2: November 6, 2013. 3.3: November 7, 2013.
Description of Status	
Anticipated Completion Date (if not Fully corrected).	

Agency	U.S. Department of Education
Fiscal Year	2014
Reference Number	2013-002
Related Prior Year Findings	12-2
Related 2014 Findings	2014-009
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies, Improving Teacher Quality, Special Education Cluster, State Fiscal Stabilization Fund, Race-to-the-Top Incentive Grants, Recovery Act (84.010, S-84.389, 84.027, 84.173, S-84.392, 84.367, S-84.395)
Type of Finding	Material Weakness, Material Noncompliance
Compliance Requirement(s)	Allowability (effort reporting)
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit’s system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less

	than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5) Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including: • The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results. • The entire time period being sampled. • The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)
Condition	**Condition:** *Title I* During our testing of a sample of sixty-five payroll expenditures totaling $125,522, we found the following: • One employee totaling $3,247 charged to the program at the Red Clay School District was missing a time and effort report. • Charges of $12,779 to the program for six employees at the Brandywine, Capital, Indian River, Lake Forest, and Laurel School Districts did not agree to the percentages approved on their time and effort reports by a net difference of $2,937 (overcharged). • Two employees charging a total of $2,691 to the program at the Milford School District had semiannual certifications that were not signed or that were signed prior to the end of the period being charged. • Four employees totaling $9,680 to the program at the Brandywine School District were allocated 100% to the program, but completed a monthly time and effort which did not indicate the time period actually being charged. • Two employees' time and effort reports totaling $6,509 to the program at the Lake Forest and Laurel School District did not have 100% of their time allocated. • Two employees' time and effort reports totaling $3,104 to the program at the Woodbridge School District were signed over three months after the period charged. • Thirty-one of the time and effort reports reviewed were not dated. Payroll expenditures totaled $28,380,281 and program expenditures were $39,103,999. A summary of the above exceptions by school district are summarized below.

Type of Finding			
Missing Time & Effort Report	***# of Exceptions***	***Exceptions Dollar Amount of Exceptions***	
Red Clay Consolidated School District	1	$3,247	
Salary Does Not Agree to Approved Percentages	***# of Exceptions***	***Dollar Amount of Sampled Item***	***Exception Difference***
Brandywine School District	1	$1,154	($616)
Capital School District	2	$3,369	$81
Indian River School District	1	$1,747	$874
Lake Forest School District	1	$3,667	$11
Laurel School District	1	$2,842	$2,587
	6	$12,779	$2,937
Semi-Annual Certification Unsigned or Signed Before End of Period Being Charged	***# of Exceptions***	***Dollar Amount of Exceptions***	
Milford School District	2	$2,691	
Time & Effort Did Not Indicate The Time Period Charged for Employees Allocated 100%	***# of Exceptions***	***Dollar Amount of Exceptions***	
Brandywine School District	4	$9,680	
Time & Effort Did Not Have 100% of Employees' Time Allocated	***# of Exceptions***	***Dollar Amount of Exceptions***	
Lake Forest School District	1	$3,667	
Laurel School District	1	$2,842	
	2	$6,509	
Time & Effort Signed Over 3 Months After the Period Charged	***# of Exceptions***	***Dollar Amount of Exceptions***	
Woodbridge School District	2	$3,104	

Improving Teacher Quality
During our testing of a sample of sixty-five payroll expenditures totaling $134,317, we found the following:

- Four employees totaling $6,760 charged to the program at the Brandywine, Laurel, and Woodbridge School Districts were missing time and effort reports.

- Charges of $11,611 to the program for five employees at the Red Clay, Christina, and Seaford school districts did not agree to the percentages approved on their time and effort reports by a net difference of $4,037 (overcharge).
- Three employees charging a total of $7,277 to the program at the Capital School District had semiannual certifications that were not signed or that were signed prior to the end of the period being charged.
- Six employees totaling $12,983 charged to the program at the Brandywine School District were allocated 100% to the program, but did not complete a time and effort certification on a semi-annual basis.
- Twenty-seven of the time and effort reports reviewed were not dated.

Payroll expenditures totaled $8,955,434 and program expenditures were $11,340,478.

A summary of the above exceptions by school district are summarized below.

Type of Finding			
Missing Time & Effort Report	***# of Exceptions***	***Dollar Amount of Exceptions***	
Brandywine School District	1	$1,167	
Laurel School District	1	$2,105	
Woodbridge School District	2	$3,488	
	4	$6,760	
Salary Does Not Agree to Approved Percentages	***# of Exceptions***	***Dollar Amount of Sampled Item***	***Exception Difference***
Red Clay Consolidated School District	3	$8,129	$555
Christina School District	1	$714	$714
Seaford School District	1	$2,768	$2,768
	5	$11,611	$4,037
Semi-Annual Certification Unsigned of Signed Before End of Period Being Charged	***# of Exceptions***	***Dollar Amount of Exceptions***	
Capital School District	3	$7,277	
Time & Effort Certification Not Completed on a Semi-Annual Basis for Employees Allocated 100%	***# of Exceptions***	***Dollar Amount of Exceptions***	
Brandywine School District	6	$12,983	

Special Education Cluster
During our testing of a sample of sixty-five payroll expenditures totaling $121,499, we found the following:

- Nine employees totaling $16,665 charged to the program at the Brandywine, Caesar Rodney, and Indian River School Districts were missing a time and effort reports.

- Charges of $5,843 to the program for two employees at the Appoquinimink and Laurel School Districts did not agree to the percentages approved on their time and effort reports by a net difference of $2,299 (undercharge).
- Four employees' time and effort reports totaling $8,308 charged to the program at the Caesar Rodney, Laurel, Red Clay, and Seaford School Districts did not have 100% of their time allocated.
- One employee's time and effort report totaling $1,284 charged to the program was signed over three months from the period charged.
- Twenty-four of the time and effort reports reviewed were not dated.

Payroll expenditures totaled $22,945,041 and program expenditures were $34,129,025.

A summary of the above exceptions by school district are summarized below.

<table>
<tr><th colspan="4">Type of Finding</th></tr>
<tr><td>Missing Time & Effort Report</td><td># of Exceptions</td><td colspan="2">Dollar Amount of Exceptions</td></tr>
<tr><td>Brandywine School District</td><td>6</td><td colspan="2">$10,977</td></tr>
<tr><td>Caesar Rodney School District</td><td>1</td><td colspan="2">$954</td></tr>
<tr><td>Indian River School District</td><td>2</td><td colspan="2">$4,734</td></tr>
<tr><td></td><td>9</td><td colspan="2">$16,665</td></tr>
<tr><td>Salary Does Not Agree to Approved Percentages</td><td># of Exceptions</td><td>Dollar Amount of Sampled Item</td><td>Exception Difference</td></tr>
<tr><td>Appoquinimink School District</td><td>1</td><td>$2,427</td><td>($2,572)</td></tr>
<tr><td>Laurel School District</td><td>1</td><td>$3,416</td><td>$273</td></tr>
<tr><td></td><td>2</td><td>$5,843</td><td>($2,299)</td></tr>
<tr><td>Time & Effort Did Not Have 100% of Employees' Time Allocated</td><td># of Exceptions</td><td colspan="2">Dollar Amount of Exceptions</td></tr>
<tr><td>Caesar Rodney School District</td><td>1</td><td colspan="2">$665</td></tr>
<tr><td>Laurel School District</td><td>1</td><td colspan="2">$3,417</td></tr>
<tr><td>Red Clay Consolidated School District</td><td>1</td><td colspan="2">$1,152</td></tr>
<tr><td>Seaford School District</td><td>1</td><td colspan="2">$3,074</td></tr>
<tr><td></td><td>4</td><td colspan="2">$8,308</td></tr>
<tr><td>Time & Effort Signed over 3 Months After the Period Charged</td><td># of Exceptions</td><td colspan="2">Dollar Amount of Exceptions</td></tr>
<tr><td>Brandywine School District</td><td>1</td><td colspan="2">$1,284</td></tr>
</table>

State Fiscal Stabilization Fund, Race-to-the -Top
During our testing of a sample of sixty-five payroll expenditures totaling $156,522, we found the following:

- Two employees totaling $4,041 charged to the program at the Woodbridge School District were missing time and effort reports.

- Charges of $2,866 to the program at the Laurel School District did not agree to the percentages approved on their time and effort reports by a net difference of $2,077 (undercharge).
- Six employees charging a total of $10,505 to the program at the Capital and Red Clay School Districts had semi-annual certifications that were not signed or that were signed prior to the end of the period being charged.
- Five employees totaling $19,098 to the program at the Brandywine School District were allocated 100% to the program, but did not complete a time and effort certification on a semi-annual basis.
- Nineteen of the time and effort reports reviewed were not dated.

Payroll expenditures totaled $12,556,829 and program expenditures were $31,417,461.

A summary of the above exceptions by school district are summarized below.

<table>
<tr><th colspan="4"><i>Type of Finding</i></th></tr>
<tr><th><i>Missing Time & Effort Report</i></th><th><i># of Exceptions</i></th><th colspan="2"><i>Dollar Amount of Exceptions</i></th></tr>
<tr><td>Woodbridge School District</td><td>2</td><td colspan="2">$4,041</td></tr>
<tr><th><i>Salary Does Not Agree to Approved Percentages</i></th><th><i># of Exceptions</i></th><th><i>Dollar Amount of Sampled Item</i></th><th><i>Exception Difference</i></th></tr>
<tr><td>Laurel School District</td><td>2</td><td>$2,866</td><td>($2,077)</td></tr>
<tr><th><i>Semi-Annual Certification Unsigned or Signed Before End of Period Being Charged</i></th><th><i># of Exceptions</i></th><th colspan="2"><i>Dollar Amount of Exceptions</i></th></tr>
<tr><td>Capital School District</td><td>3</td><td colspan="2">$5,977</td></tr>
<tr><td>Red Clay Consolidated School District</td><td>3</td><td colspan="2">$4,528</td></tr>
<tr><td></td><td>6</td><td colspan="2">$10,505</td></tr>
<tr><th><i>Time & Effort Certification Not Completed on a Semi-Annual Basis for Employees Allocated 100%</i></th><th><i># of Exceptions</i></th><th colspan="2"><i>Dollar Amount of Exceptions</i></th></tr>
<tr><td>Brandywine School District</td><td>5</td><td colspan="2">$19,098</td></tr>
</table>

A summary of the major programs with payroll control and compliance exceptions are summarized below.

Title I Program

	# of Items	*Dollar Amount of Items*
Total Payroll Expenditures	39,654	$ 28,380,281
Total Program Expenditures	47,522	39,103,999
Payroll Sample	65	125,522
Payroll Control Exceptions	14	20,504
Payroll Compliance Exception	14	20,504

Improving Teacher Quality

	# of Items	***Dollar Amount of Items***
Total Payroll Expenditures	18,899	$ 8,955,434
Total Program Expenditures	20,327	11,340,478
Payroll Sample	65	143,317
Payroll Control Exceptions	18	31,057
Payroll Compliance Exception	18	31,057

Special Education Cluster

	# of Items	***Dollar Amount of Items***
Total Payroll Expenditures	48,979	$ 22,945,041
Total Program Expenditures	56,516	34,129,025
Payroll Sample	65	121,499
Payroll Control Exceptions	15	25,139
Payroll Compliance Exception	15	25,139

State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants

	# of Items	***Dollar Amount of Items***
Total Payroll Expenditures	25,485	$ 12,556,829
Total Program Expenditures	29,551	31,417,461
Payroll Sample	65	156,522
Payroll Control Exceptions	15	35,721
Payroll Compliance Exception	15	35,721

Cause	The State Department of Education and the school districts cited above did not maintain proper and timely effort reporting for employees funded by federal programs.
Effect	Salary and related costs allocated to the federal programs are not appropriately supported by semi-annual certifications or properly prepared time and effort reports.
Recommendation	We recommend that the State Department of Education and the above school districts continue to hold training sessions to educate the employees on the importance of effort reports, require management review and sign-off on completeness of the effort reports to insure the State maintains properly prepared and signed personnel activity reports (effort reports) for all employees who work on multiple programs or obtain semi-annual certifications for employees that have been solely engaged in activities supported by one funding source.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2014

<table>
<tr><td rowspan="10"><i>Questioned Costs</i></td><td><i>Missing Time & Effort Report</i></td><td><i># of Exceptions</i></td><td colspan="2"><i>Dollar Amount of Exceptions</i></td></tr>
<tr><td><i>Title I Program</i></td><td>1</td><td colspan="2">$3,247</td></tr>
<tr><td><i>Improving Teacher Quality Program</i></td><td>4</td><td colspan="2">$ 6,760</td></tr>
<tr><td><i>Special Education Cluster</i></td><td>9</td><td colspan="2">$ 16,665</td></tr>
<tr><td><i>State Fiscal Stabilization - Race-to-the-Top Incentive Grants</i></td><td>2</td><td colspan="2">$ 2,041</td></tr>
<tr><td><i>Salary Does Not Agree to Approved Percentages</i></td><td><i># of Exceptions</i></td><td><i>Dollar Amount of Exceptions</i></td><td><i>Exception Difference Over (under) Charge</i></td></tr>
<tr><td><i>Title I Program</i></td><td>6</td><td>$ 12,779</td><td>$ 2,937</td></tr>
<tr><td><i>Improving Teacher Quality Program</i></td><td>5</td><td>$ 11,611</td><td>$ 4,037</td></tr>
<tr><td><i>Special Education Cluster</i></td><td>2</td><td>$ 5,843</td><td>$ (2,299)</td></tr>
<tr><td><i>State Fiscal Stabilization - Race-to-the-Top Incentive Grants</i></td><td>2</td><td>$ 2,866</td><td>$ (2,077)</td></tr>
<tr><td><i>Agency Contact Name</i></td><td colspan="4"><i>Eulinda DiPietro</i></td></tr>
<tr><td><i>Agency Contact Phone Number</i></td><td colspan="4"><i>302-735-4016</i></td></tr>
<tr><td><i>Corrective Action Plan</i></td><td colspan="4">1. A copy of the Audit Finding will be shared with fiscal staff at each LEA with finding(s).
2. DE DOE fiscal staff will provide training for LEA fiscal staff on the requirements for time and effort, acceptable formats to use for the certification and how to complete the forms.
3. DE DOE program staff will offer time and effort training opportunities throughout the year for LEA staff.
4. DE DOE program staff will continue to monitor LEAs for time and effort requirements.</td></tr>
<tr><td><i>Finding Status</i></td><td colspan="4">Fully Corrected.☐
Not Corrected or Partially Corrected.☒
Action taken different than original Corrective Action Plan.☐
No longer warranting further action.☐</td></tr>
<tr><td><i>Description of Status</i></td><td colspan="4">1. A copy of the Audit Finding will be shared with fiscal staff at each LEA with finding(s). Completed
2. DE DOE fiscal staff will provide training for LEA fiscal staff on the requirements for time and effort, acceptable formats to use for the certification and how to complete the forms. Rescheduled for 10/2014
3. DE DOE program staff will offer time and effort training opportunities throughout the year for LEA staff. Fall of 2014 and Spring of 2015
4. DE DOE program staff will continue to monitor LEAs for time and effort requirements. Fall of 2014 and Spring of 2015</td></tr>
</table>

Anticipated Completion Date (if not Fully corrected).	5/2015

Agency	U.S. Department of Education
Fiscal Year	2014
Reference Number	2013-003
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies 84.010, S-84.389
Type of Finding	Significant Deficiency, Non Compliance
Compliance Requirement(s)	Allowability (non-payroll)
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* The objective of the programs is to improve the teaching and learning of children who are at risk of not meeting challenging academic standards and who reside in areas with high concentrations of children from low-income families. In addition, to be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1 & C.2): a. Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.) b. Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.) c. Be authorized or not prohibited under State or local laws or regulations. d. Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items. e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost. g. Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87. h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.

	i. Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.) j. Be adequately documented. 2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when governmental units or components are predominately federally funded. In determining reasonableness of a given cost, consideration shall be given to: a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
Condition	In a sample of sixty-five nonpayroll transactions totaling $1,884,222, one transaction for the Christina School District totaling $8,633 was approved, but considered questionable for the Title I program as costs consisted of theater tickets for students to attend a Broadway play. Such costs are not considered necessary and reasonable for the proper and efficient performance of the Title I award. Nonpayroll expenditures for the Program totaled $10,723,718 and total program expenditures totaled $39,103,999.
Cause	A rationale detailing the academic benefit of the trip was not included in the supporting documentation for the transaction. While the District provide a verbal explanation, we did not consider it reasonable for Title I performance.
Effect	Costs are being charged to the federal program which are not allowable and could result in the Program having to return grant money to the U.S. Department of Education.
Recommendation	The Delaware Department of Education should reinforce to the school districts what costs are allowable under the Title I program and ensure that proper approvals and appropriate supporting documentation is prepared and maintained.
Questioned Costs	The questioned costs were $8,633.
Agency Contact Name	***Ted Jarrell***
Agency Contact Phone Number	***302-857-3333***
Corrective Action Plan	1. A copy of the Audit Finding will be shared with the Title IIA coordinator at the Christina School District. 2. The criteria for determining allowable costs have been covered during annual Title I fiscal trainings for the last three to four years. DE DOE program staff will continue to cover this topic, including all that is outlined in OMB A-87, during the May 2014 fiscal training webinar. This webinar will be recorded and sent to all LEA Title I coordinators. 3. DE DOE program staff will continue to maintain a summary of the OMB A-87 cost principles on our Title I Website. This document has been distributed at the annual New Title I Coordinator Trainings in the fall and the annual fiscal trainings held in the spring. 4. OMB A-87 Cost principles were discussed and the above summary was distributed at Consolidated Application technical assistance sessions for the 13-14 grants in April of 2013. A copy of this resource will be distributed during the April 2014 trainings. 5. LEA budgets in the consolidated grant are thoroughly reviewed using an extensive checklist. The DE DOE program manager reviews each budgeted item for allowability, reasonableness and necessity. This process will be continued for the 14-15 grants. 6. The 14-15 consolidated grant has been updated to include a “Justification box” for budgeted times. LEAs with questionable costs may be required to complete the justification box prior to receiving approval from program managers. This will help

	provide more information to determine whether a budgeted item is allowable, reasonable and necessary. 7. DE DOE program staff will continue to monitor selected items from approved budgets vs. actual expenditures during annual Title IA monitoring. This helps ensure that LEAs expend Title I funds only on approved items.
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	1. A copy of the Audit Finding will be shared with the Title I coordinator at the Christina School District. Completed 2. The criteria for determining allowable costs have been covered during annual Title I fiscal trainings for the last three to four years. DE DOE program staff will continue to cover this topic, including all that is outlined in OMB A-87, during the May 2014 fiscal training webinar. This webinar will be recorded and sent to all LEA Title I coordinators. Completed 3. DE DOE program staff will continue to maintain a summary of the OMB A-87 cost principles on our Title I Website. This document has been distributed at the annual New Title I Coordinator Trainings in the fall and the annual fiscal trainings held in the spring. Pending 4. OMB A-87 Cost principles were discussed and the above summary was distributed at Consolidated Application technical assistance sessions for the 13-14 grants in April of 2013. A copy of this resource will be distributed during the April 2014 trainings. Completed 5. LEA budgets in the consolidated grant are thoroughly reviewed using an extensive checklist. The DE DOE program manager reviews each budgeted item for allowability, reasonableness and necessity. This process will be continued for the 14-15 grants. In process. 6. The 14-15 consolidated grant has been updated to include a "Justification box" for budgeted times. LEAs with questionable costs may be required to complete the justification box prior to receiving approval from program managers. This will help provide more information to determine whether a budgeted item is allowable, reasonable and necessary. In process 7. DE DOE program staff will continue to monitor selected items from approved budgets vs. actual expenditures during annual Title IA monitoring. This helps ensure that LEAs expend Title I funds only on approved items. Throughout the FY 15 state fiscal year
Anticipated Completion Date (if not Fully corrected).	5/2015

Agency	U.S. Department of Education
Fiscal Year	2014
Reference Number	2013-004
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Improving Teacher Quality 84.367
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Reporting: SEFA
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* The Improving Teacher Quality State Grants may be used for a broad span of activities designed to improve teacher quality that are identified in Section 2123(a) of the ESEA. Examples of allowable activities include: (1) providing “professional development” (as the term is defined in Section 9101(34) of the ESEA, 20 USC 6602(34)) to teachers, and, where appropriate, to principals and paraprofessionals in content knowledge and classroom practice; (2) developing and implementing a wide variety of strategies and activities to recruit, hire, and retain highly qualified teachers and principals; (3) developing and implementing initiatives to promote retention of highly qualified teachers and principals; (4) carrying out professional development programs to assist principals and superintendents in becoming outstanding managers and educational leaders; and (5) carrying out teacher advancement initiatives that promote professional growth and emphasize multiple career paths and pay differentiation, and establish programs and activities related to exemplary teachers. LEAs also may use funds to hire teachers to reduce class size (Sections 2101 and 2123(a) of the ESEA (20 USC 6601 and 6623(a))). In addition, to be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1): a. Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.) b. Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.) c. Be authorized or not prohibited under State or local laws or regulations. d. Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items. e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

	f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost. g. Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87. h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation. i. Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.) j. Be adequately documented.
Condition	We found that the initial schedule of expenditures of federal awards had $5,940,544 which was incorrectly recorded as CFDA 84.365 (Title III) instead of CFDA 84.367 (Improving Teacher Quality). The schedule of federal expenditures has been updated to properly reflect total Improving Teacher Quality expenditures. Total nonpayroll expenditures for the Program totaled $2,385,044 and total program expenditures totaled $10,757,610.
Cause	There was a manual error in the initial set up of some projects by DOE which resulted in the information used to extract CFDA program detail not being properly established in the First State Financial (FSF) system and linked to the correct CFDA number. Consequently, a portion of the program expenditures went to incorrect CFDA numbers within FSF.
Effect	The State's Schedule of Expenditures of Federal Awards (SEFA) is incorrect and requires adjustment.
Recommendation	The State's SEFA should be reconciled to grant allocations annually to ensure all program expenditures have been properly reflected on the SEFA.
Questioned Costs	There are no questioned costs associated with this finding as the errors relates to incorrect CFDA coding.
Agency Contact Name	***Eulinda DiPietro***
Agency Contact Phone Number	***302-735-4016***
Corrective Action Plan	Every August DE DOE fiscal staff will reconcile grant expenses to the SEFA expenses to ensure all program expenditures are the appropriate CFDA numbers are correlated.
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	Every August DE DOE fiscal staff will reconcile grant expenses to the SEFA expenses to ensure all program expenditures are the appropriate CFDA numbers are correlated. Pending. Work will start in 8/2014
Anticipated Completion Date (if not Fully corrected).	10/2014

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2014

Agency	U.S. Department of Education
Fiscal Year	2014
Reference Number	2013-005
Related Prior Year Findings	12-4
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies, Special Education Cluster, Improving Teacher Quality and State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act (84.010, S-84.389, 84.027, 84.173, S-84.392, 84.367, S-84.395)
Type of Finding	Significant Deficiency, Non Compliance
Compliance Requirement(s)	Cash Management
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 *et seq.),* require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures of Treasury Subpart B of 31 CFR part 205 (Subpart B). We noted that of the four federal programs identified above, the Improving Teacher Quality State Grants and the State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants are subject to the CMIA. The other two federal programs are required to be in compliance with Subpart B cash draw down procedures.
Condition	The Department of Education's (DOE)/program drawdown process includes the following steps: • executing a query to determine outstanding account receivables • submitting a request for reimbursement from the applicable federal draw system • subsequently applying the reimbursement deposit to First State Financials (FSF) against the outstanding account. Based on a sample of thirty-two drawdowns totaling $65,260,706 for four Programs, four drawdowns totaling $13,504,435 were deposited, however, there was a technical issue and the deposits failed to post and clear the outstanding account receivables balance resulting in the drawdowns being drawn twice. The technical issue was the result of an FSF upgrade in October 2013 that did not properly account for multiple fund distributions which is a unique to the school districts within the DOE. The issue was corrected in November of 2013. There were 71 draws for the four programs totaling $114,815,974.

The tables below represent the scope of items examined and the associated results:

Title I Program

	# of Items	*Dollar Amount of Items*
Program Expenditures		$39,103,999
Draw Population	18	38,063,285
Sample	8	21,679,608
Control Exceptions	1	4,356,823
Compliance Exception	1	4,356,823

Improving Teacher Quality

	# of Items	*Dollar Amount of Items*
Program Expenditures		$11,340,478
Draw Population	18	10,672,775
Sample	8	5,144,988
Control Exceptions	1	1,162,213
Compliance Exception	1	1,162,213

Special Education Cluster

	# of Items	*Dollar Amount of Items*
Program Expenditures		$34,129,025
Draw Population	18	34,034,203
Sample	8	19,594,208
Control Exceptions	1	3,843,095
Compliance Exception	1	3,843,095

State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants

	# of Items	*Dollar Amount of Items*
Program Expenditures		$31,417,461
Draw Population	17	32,045,711
Sample	8	18,841,902
Control Exceptions	1	4,142,304
Compliance Exception	1	4,142,304

Cause	DOE utilized a system query to obtain the required information; however, there was no detail review of the system query so it was not detected that the it included expenditures which related to a previous drawdown request.
Effect	The State received duplicate drawdowns for expenditures and therefore advance funding for the four programs noted above. When the DOE management was informed of this issue by the FSF staff they reduced subsequent drawdowns to compensate for the duplicate draws. However, the amount of interest earned on the advanced funding would also need to be

	calculated per the Treasury's current value of funds rate of 1.00% and submitted back to the federal government.
Recommendation	The DOE should confirm that no unapplied cash receipts are in the FSF system prior to completion of a federal draw down. In addition, DOE needs to repay the federal government for the accrued interest on the advanced funding.
Questioned Costs	Known interest liability due to the federal government still needs to be determined by DOE management based on the duplicate draw and subsequent reductions in the amount advanced.
Agency Contact Name	***Eulinda DiPietro***
Agency Contact Phone Number	***302-735-4016***
Corrective Action Plan	A manual process outside of First State Financials will be completed after each draw to cross reference item ids from the previous AR query results and current AR query results to confirm unduplicated data. Since a reimbursable funding technique is used to transfer funds to state agencies for the State's federally sponsored programs, the total amount of expenses that the State floats exceeds funding drawn at any point in time. As such, it is not incumbent upon DE DOE to pay interest within the context of all draws and expenses.
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 as of 12/2013
Anticipated Completion Date (if not Fully corrected).	

Agency	U.S. Department of Education
Fiscal Year	2014
Reference Number	2013-006
Related Prior Year Findings	N/A
Related 2014 Findings	2014-014
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies, Improving Teacher Quality (84.010, S-84.389, 84.367)
Type of Finding	Material Weakness, Material Noncompliance
Compliance Requirement(s)	Procurement and Suspension and Debarment
Criteria	*Control exceptions:* States, and governmental subrecipients of States, will use the same State policies and procedures used for procurements from non-Federal funds. They also must ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations. *Compliance exceptions:* Title 29, Chapter 69, Subchapter VI. Professional Services, Subsection 6985 of the Delaware code, sole source procurement state: a. A contract may be awarded for material or nonprofessional services without competition if the agency head, prior to the procurement, determines in writing that there is only 1 source for the required material or nonprofessional service. Sole source procurement shall not be used unless there is sufficient evidence that there is only 1 source for the required material or service and that no other type of material or service will satisfy the requirements of the agency. The agency shall examine cost or pricing data, which shall include lifecycle costing analysis as specified in §§ 6902 and 6909A(b) of this title if the sole source offers more than 1 type or variety of equipment, prior to an award under this section. Sole source procurement shall be avoided, except when no reasonable alternative sources exist. A written determination by the agency stating the basis for the sole source procurement shall be included in the agency contract file. Textbooks and related instructional materials are sole source purchases. b. An agency seeking a sole source procurement shall prepare written documentation citing the existence of a sole source condition. The document shall include the specific efforts made to determine the availability of any other source and an explanation of the procurement need. The agency may, for confirmation, submit this documentation to the Section for review and comment prior to the intended date of award. c. The agency shall negotiate with the single supplier, to the extent practicable, a contract advantageous to the agency. The agency shall enter into a formal contract stating the terms and conditions of the procurement.

Condition	Based on our review of the School Districts' procurement procedures for nineteen vendors receiving $1,522,283 of Title I funds during the year, we found that the required bidding practices were not performed for two vendors that received $102,300 during the year expended by the Seaford and Brandywine School Districts. Based on our review of the School Districts' procurement procedures for three vendors receiving $339,797 of Improving Teacher Quality funds, we found that the required bidding practices were not performed for one vendor receiving $29,925 expended by the Indian River School District. All three vendors were sole source procurements; however, there was no documentation to justify sole sourcing.
Cause	The School Districts did not have a protocol to document their rationale for utilizing a sole source procurement including the specific efforts made to determine the availability of any other sources or an explanation of the specificity of the procurement criteria.
Effect	The School Districts did not comply with State procurement laws as required by Federal regulations.
Recommendation	When determining if contracts meet the sole source criteria, the School Districts should adequately document the determination in accordance with Title 29, Chapter 69, Subsection 6925(b). Otherwise, contracts for these services should be subjected to the normal bidding practices.
Questioned Costs	Questioned costs related to procurements are $102,300 for Title I and $29,925 for ITQ cannot be determined.
Agency Contact Name	***Ted Jarrell***
Agency Contact Phone Number	***302-857-3333***
Corrective Action Plan	1. A copy of the Audit Finding will be shared with the Title IA coordinators in the Seaford and Brandywine School Districts. 2. Procurement procedures will be discussed during the Title IA technical assistance webinar on Title I Fiscal Issues in April 2014. 3. Procurement procedures will be noted in Consolidated Application technical assistance sessions for any expenditure that meets or exceeds the $25,000 threshold for bidding practices. 4. In addition to the general assurance in the Consolidated Application we have had for several years regarding the requirement to comply with all state requirements, a specific assurance has been added for the 14-15 grant regarding the requirement to comply with the state procurement requirements in Title 29 Chapter 69 of the Delaware Code. 5. Procurement procedures will be added to the Title IA technical assistance website. 6. During annual Title IA monitoring of Budget vs. Expenditures, required documentation of bidding process or sole source documentation will be requested for selected items over $25,000 each.
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	1. A copy of the Audit Finding will be shared with the Title IA coordinators in the Seaford and Brandywine School Districts. Completed 2. Procurement procedures will be discussed during the Title IA technical assistance webinar on Title I Fiscal Issues in April 2014. Completed 3. Procurement procedures will be noted in Consolidated Application technical assistance sessions for any expenditure that meets or exceeds the $25,000 threshold for bidding practices. Completed 4. In addition to the general assurance in the Consolidated Application we have had for several years regarding the requirement to comply with all state requirements, a specific assurance has been added for the 14-15 grant regarding the requirement to comply with the state procurement requirements in Title 29 Chapter 69 of the Delaware Code. Completed 5. Procurement procedures will be added to the Title IA technical assistance website. Will occur in the Fall of 2014. 6. During annual Title IA monitoring of Budget vs. Expenditures, required documentation of bidding process or sole source documentation will be requested for selected items over $25,000 each. Will occur in the Fall of 2014.
Anticipated Completion Date (if not Fully corrected).	11/2014

Agency	U.S. Department of Education
Fiscal Year	2014
Reference Number	2013-007
Related Prior Year Findings	12-7
Program Name (CFDA No.)	Improving Teacher Quality; Title I Grants to Local Education Agencies (84.367; 84.010, S-84.389)
Type of Finding	Significant Deficiency, Noncompliance
Compliance Requirement(s)	Special Test and Provisions (Private Schools and Letters of Intent)
Criteria	*Control exception:* The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exception:* For programs funded under Title I, Part A (CFDA 84.010), a Local Educational Agency (LEA), after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families. Eligible private school children are those who reside in a participating public school attendance area and have educational needs under section 1115(b) of ESEA. For all other programs, an SEA, LEA, or any other educational service agency (or consortium of such agencies) receiving financial assistance under an applicable program must provide eligible private school children and their teachers or other educational personnel with equitable services or other benefits under the program. Before an agency or consortium makes any decision that affects the opportunity of eligible private school children, teachers, and other educational personnel to participate, the agency or consortium must engage in timely and meaningful consultation with private school officials. Expenditures for services and benefits to eligible private school children and their teachers and other educational personnel must be equal on a per-pupil basis to the expenditures for participating public school children and their teachers and other educational personnel, taking into account the number and educational needs of the children, teachers and other educational personnel to be served (Sections 5142 and 9501 of ESEA (20 USC 7217a and 7881); 34 CFR sections 299.6 through 299.9).
Condition	The State Department of Education provides a list of all private schools within a school district attendance area that are required to be sent letters of intent making the school aware of access to possible federal funding. There is no mechanism in place to determine if all State school districts properly sent the required letters for all applicable programs. Of the forty private schools tested, one private school in the Brandywine School District attendance area was not sent the required letter to solicit Title I participation and two schools

	in the Indian River District attendance area were not sent the required letter to solicit Improving Teacher Quality participation.
Cause	The Department of Education still has not completely implemented the prior year corrective action plan to ensure that all school district personnel are aware of the federal requirements and the Delaware Department of Education's policy regarding the private schools letters of intent.
Effect	Brandywine and Indian River school districts are not in compliance with the State of Department of Education's policy or the private school participation requirements of the Program.
Recommendation	The State Department of Education and school district personnel should ensure that the districts fulfill the federal requirements pertaining to the private school's participation of services for all federal programs available to them.
Questioned Costs	There are no questioned costs for this finding.
Agency Contact Name	***Kim Wells (Title I) and Wendy Modzelewski (Title II)***
Agency Contact Phone Number	***302-857-3326 (Wells) and 302-857-3312***
Corrective Action Plan	The DE DOE Title I office monitored all schools districts for invitations to participate during the 12-13 schools year in June 2012. Brandywine School District was found to be in compliance at that time. A checklist was used to compare the invitations Brandywine sent against the private schools that are currently registered with the State of Delaware that fall within Brandywine's boundaries. The DE DOE Title I Office does not maintain this list, but provides it as a courtesy to LEAs annually along with template letters so they are aware of which schools that are registered with the State fall within their boundaries. The LEAs are told that the list is only who is currently registered with the State and it is their responsibility to reach out to any other schools they are aware of that may not be on the registration list. For Title I this includes schools outside of their boundaries that may be serving students who live in their participating school feeders. Maintaining control of this process is an LEA responsibility according to UDSOE. The Title I Office has copies of all of the letters of invitation from the Brandywine School District for the 12-13 school year and can provide them if requested. **Corrective Action Plan for Title I:** 1. A copy of the Audit Finding will be shared with the Title IA coordinators in the Brandywine School District. 2. Continue program collaboration with other federal programs to issue template letters and the list of private schools registered with the state to LEAs in December and January. 3. Equitable Services processes will continue to be maintained on the Title IA technical assistance website including template letter of invitation, a building blocks guidance document and other guidance documents. **4.** The Consolidated Application has been modified for FY15 such that the LEA must describe how invitations to participate in Title IA were sent to private school officials. **Corrective Action Plan for Title IIA:** 1. A copy of the Audit Finding will be shared with the Title IIA coordinators in the Indian River School District.

	2. Equitable Services processes were explained to districts during a May 2012 webinar. This webinar is recorded and posted on DOE's Title II website. 3. Equitable Services processes will be explained during the Title IIA technical assistance provided during the 13-14 school year. 4. Title IIA will continue to coordinate with the Title I Office and other federal programs, as it has done for the past two years, in the distribution of template letters and the list of non-profit private schools to all district program coordinators in the December/January timeframe. 5. Equitable Services processes will continue to be maintained on the Title IIA technical assistance website. 6. The Consolidated Application will be modified for FY15 such that the LEA must describe how invitations to participate in Title IIA were sent to private school officials.
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	**Title I** The DE DOE Title I office monitored all schools districts for invitations to participate during the 12-13 schools year in June 2012. Brandywine School District was found to be in compliance at that time. A checklist was used to compare the invitations Brandywine sent against the private schools that are currently registered with the State of Delaware that fall within Brandywine's boundaries. The DE DOE Title I Office does not maintain this list, but provides it as a courtesy to LEAs annually along with template letters so they are aware of which schools that are registered with the State fall within their boundaries. The LEAs are told that the list is only who is currently registered with the State and it is their responsibility to reach out to any other schools they are aware of that may not be on the registration list. For Title I this includes schools outside of their boundaries that may be serving students who live in their participating school feeders. Maintaining control of this process is an LEA responsibility according to UDSOE. The Title I Office has copies of all of the letters of invitation from the Brandywine School District for the 12-13 school year and can provide them if requested. Completed. **Title IIA** 1. A copy of the Audit Finding will be shared with the Title IIA coordinators in the Indian River School District. Completed 2. Equitable Services processes were explained to districts during a May 2012 Webinar. This webinar is recorded and posted on DOE's Title II website. Completed 3. Equitable Services processes will be explained during the Title IIA technical assistance provided during the 13-14 school year. Pending 4. Title IIA will continue to coordinate with the Title I Office and other federal programs, as it has done for the past two years, in the distribution of template letters and the list of non-profit private schools to all district program coordinators in the December/January timeframe. Pending 5. Equitable Services processes will continue to be maintained on the Title IIA technical assistance website. Completed

	6. The Consolidated Application will be modified for FY15 such that the LEA must describe how invitations to participate in Title IIA were sent to private school officials. Completed
Anticipated Completion Date (if not Fully corrected).	11/2014

Agency	U.S. Department of Education
Fiscal Year	2014
Reference Number	2013-008
Related Prior Year Findings	N/A
Related 2014 Findings	2014-015
Program Name (CFDA No.)	Improving Teacher Quality; Title I Grants to Local Education Agencies; Special Education Cluster (84.367; 84.010, S-84.389; 84.027, 84.173; S-84.392)
Type of Finding	Material Weakness, Material Noncompliance
Compliance Requirement(s)	Special Test and Provisions (Schoolwide)
Criteria	*Control exception:* The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exception:* A school participating under Title I, Part A may, in consultation with its Local Educational Agency (LEA), use its Title I, Part A funds, along with funds provided from other Federal, State, and local education funds, to upgrade the school's entire educational program in a schoolwide program. At least 40 percent of the children enrolled in the school or residing in the school attendance area for the year of the schoolwide program must be from low-income families. The LEA is required to maintain records to demonstrate compliance with this requirement. a. To operate a schoolwide program, a school must include the following three core elements: 1) Comprehensive needs assessment of the entire school (34 CFR section 200.26(a)). 2) Comprehensive plan based on data from the needs assessment (34 CFR section 200.26(b)). 3) Annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation (34 CFR section 200.26(c)). b. A schoolwide plan also must include the following components: 1) Schoolwide reform strategies (34 CFR section 200.28(a)). 2) Instruction by highly qualified professional staff (34 CFR section 200.28(b)). 3) Strategies to increase parental involvement (34 CFR section 200.28(c)). 4) Additional support to students experiencing difficulty (34 CFR section 200.28(d)).

	5) Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR section 200.28(e)).
Condition	The schools selected for testwork met the required federal threshold to operate under a schoolwide program, but approved schoolwide plans could not be located for three of the five schools requested for the Brandywine School District. Accordingly, it was not possible to determine whether a schoolwide plan was completed and approved and whether the plan included all the necessary components. We reviewed a total of 40 schoolwide plans across eight school districts.
Cause	The Brandywine School District failed to maintain its schoolwide plans for three out of the five elementary schools selected that qualified for schoolwide programs.
Effect	We could not determine Brandywine School District's compliance with the requirements of implementing a schoolwide program.
Recommendation	The Brandywine School District should ensure it maintains all schoolwide plans and that the schoolwide plans incorporate all necessary components required by the Federal regulations.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	***John Hulse***
Agency Contact Phone Number	***302-857-3353***
Corrective Action Plan	1. DE DOE will reinforce with Brandywine School District to maintain appropriate documentation for school wide programs. 2. DE DOE will continue providing guidance, technical assistance and resources on our website. 3. Review of required documentation will continue during routine monitoring.
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	1. DE DOE will reinforce with Brandywine School District to maintain appropriate documentation for school wide programs. Pending 2. DE DOE will continue providing guidance, technical assistance and resources on our website. Technical Assistance was provided in 4/2014 3. Review of required documentation will continue during routine monitoring.
Anticipated Completion Date (if not Fully corrected).	7/2014

Agency	U.S. Department of Education
Fiscal Year	2014
Reference Number	2013-009
Related Prior Year Findings	12-9
Related 2014 Findings	2014-012
Program Name (CFDA No.)	Special Education Cluster (84.027, 84.173, S-84.392)
Type of Finding	Material Weakness, Non Compliance, Scope Limitation
Compliance Requirement(s)	Level of Effort (Maintenance of Effort)
Criteria	*Control exception:* The A-102 Common Rule and its attachments found in 34 CFR 80 requires that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exception:* **LEA – LEVEL OF EFFORT** Individual Disability Education Act (IDEA), Part B funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of State and local funds, expended for this purpose by the LEA in the prior fiscal year. Allowances may be made for: (a) the voluntary departure, by retirement or otherwise, or departure for just cause, of special education personnel; (b) a decrease in the enrollment of children with disabilities; (c) the termination of the obligation of the agency, consistent with this part, to provide a program of special education to a particular child with a disability that is an exceptionally costly program, as determined by the State Educational Agency (SEA), because the child has left the jurisdiction of the agency, has reached the age at which the obligation of the agency to provide a free appropriate public education (FAPE) has terminated or no longer needs such program of special education; (d) the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities; or (e) the assumption of costs by the high cost fund operated by the SEA under 34 CFR section 300.704 (20 USC 1413(a)(2); 34 CFR sections 300.203 and 300.204).
Condition	Based on a review of the LEA (school districts) MOE calculations (Excess Cost for IDEA template) included in the 2013 LEA's Consolidated Grant Applications for each of the

nineteen school districts, we identified two school districts which had excess costs that decreased from 2010 to 2011. While there was a brief description of the decrease included in the respective Consolidated Grant Application, the actual description was carried forward from the prior year and was not relevant to the 2010 and 2011 comparison. Furthermore, similar to the prior year, the rational and corresponding evidence for the decrease was not substantiated by the DOE to verify whether it was an acceptable allowance. The rationale for excess cost decreases should be substantiated to ensure that these decreases are valid and any required changes to the allocation of Special Education funds can be properly assessed.

The two school districts effort decreased as follows:

	Total Funds Expended in 2011	***Total Funds Expended in 2010***	***Decrease***
Polytech SD	$ 3,300,688	3,838,192	(537,504)
Seaford SD	$ 14,056,065	14,822,142	(766,077)

In addition, DOE changed is methodology in determining the expenditures for the school districts' excess cost calculations. In prior years, the calculations were performed based on Special Education units included within each school district's enrollment audits. The new methodology uses need-based Special Education units which have not been audited. Accordingly, we have not been able to substantiate the units used in the school districts' excess cost calculations.

Cause	DOE is not reviewing the LEAs excess cost calculations for IDEA maintenance of effort included in the Consolidated Grant Applications. In addition, based on the change in methodology, we no longer can substantiate the Special Ed units being utilized in the excess cost calculations.
Effect	The school districts have not properly documented their compliance with Special Education MOE requirements which could impact the amount of IDEA funds that should be available and allocated.
Recommendation	We recommend that the DOE carefully review the school districts excess cost calculations included within the Consolidated Grant Applications. When the school districts have a decrease in the excess cost calculation, the DOE should validate the rationale for the decrease and then make allocation adjustments, as necessary. Furthermore, we suggest that Needs-Based Special Education units now being utilized for the excess cost calculations be included as part of the State's enrollment audits.
Questioned Costs	Questioned costs associated with the $1,303,581 in apparent reduction of effort are not determinable.
Agency Contact Name	***Eulinda DiPietro***
Agency Contact Phone Number	***302-735-4016***
Corrective Action Plan	1. DE DOE fiscal and program staff will both review the IDEA Excess and MOE data in the LEA Consolidated Applications starting in the school year 2014-2015. 2. The 2014-2015 application process has been modified to include: identification of the school year for each calculation, radio buttons for each type of exception and a text field to provide the monetary amount for each exception.

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	1. DE DOE fiscal and program staff will both review the IDEA Excess and MOE data in the LEA Consolidated Applications starting in the school year 2014-2015. Pending. DE DOE has been in regular contact with US DOE to revise the IDEA Excess and MOE methodology, which will be part of the Consolidated application for school year 2014-2015 and moving forward. A new application will be created for school year 2015-2016. Once US DOE approves the revised methodology, DE DOE will issue the information for the school 2014-2015 application via email. 2. The 2014-2015 application process has been modified to include: identification of the school year for each calculation, radio buttons for each type of exception and a text field to provide the monetary amount for each exception. Pending The IDEA Excess and MOE calculations will be calculated in an application separate from Consolidated once US DOE has approved our revised methodology.
Anticipated Completion Date (if not Fully corrected).	5/2015

Agency	U.S. Department of Education
Fiscal Year	2014
Reference Number	2013-010
Related Prior Year Findings	12-10
Program Name (CFDA No.)	Child and Adult Care Food Program (10.558)
Type of Finding	Significant Deficiency, Non Compliance
Compliance Requirement(s)	Eligibility (Subrecipients)
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* In accordance with the Child and Adult Care Food (CACFP) Program, a State administering agency must follow the following eligibility requirements: a. Administering agencies may disburse CACFP funds only to those organizations that meet the eligibility requirements stated in the following program requirements: (1) generic requirements for all institutions at 7 CFR section 226.15 and 42 USC 1766(a)(6) and (d)(1); (2) additional requirements for sponsoring organizations at 7 CFR section 226.16; (3) additional requirements for child care centers (whether independent or sponsored) at 7 CFR section 226.17; (4) additional requirements for day care homes (which must be sponsored) at 7 CFR section 226.18; (5) additional requirements for outside-school-hours centers at 7 CFR section 226.19; (6) additional requirements for adult day care centers (whether independent or sponsored) at 7 CFR section 226.19a; (7) additional requirements for at-risk afterschool programs at 7 CFR section 226.17a; and (8) additional requirements for emergency shelters at 42 USC 1766(t). b. For-profit child care and outside-school-hours care centers may participate in the CACFP if they meet either of the following two criteria: (1) at least 25 percent of the enrolled children or 25 percent of the licensed capacity, whichever is less, are funded under Title XX of the Social Security Act; or (2) at least 25 percent of the children in their care are eligible for free or reduced price meals. Children who participate only in the at-risk afterschool component of the program must not be considered in determining whether the institution met this 25 percent threshold (42 USC 1766(a)(2)(B); 7 CFR section 226.11(c)(4)). c. For-profit adult day care centers may be eligible for CACFP if at least 25 percent of their participants receive benefits under Title XIX or Title XX of the Social Security Act (7 CFR section 226.2 (definition of "for-profit center")).

	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, passthrough entities are responsible for establishing requirements, as needed, to ensure for-profit subrecipient accountability for the use of funds.
Condition	The applications of thirty-one subrecipients receiving $4,244,682 of funds during the year do not contain all the required components of the Program performance standards. These standards require that the organizations have documentation of administrative capability, which includes documentation of appropriate and effective management practices as well as an adequate number and type of staff to ensure the operation of the Program. In addition, the Department does not have accountability procedures specific to for-profit entities in lieu of the Federal OMB Circular A-133 (Single Audit) for non-profit entities. Total expenditures for the program during the year amounted to $14,985,465.
Cause	Standard applications have not been updated to ensure all federal regulations have been incorporated and are consistent. Additionally, formal requirements have not been established for the for-profit subrecipients receiving pass-through funding.
Effect	The applications do not contain all the components required by federal regulations.
Recommendation	We recommend that the Delaware Department of Education revise its CACFP applications to ensure all necessary components listed in the Federal regulations are explicitly incorporated. In addition, the Department needs to establish formal requirements for the for-profit subrecipients as this funding may continue to grow.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Linda C. Wolfe, Director, School Support Services***
Agency Contact Phone Number	***(302) 735-4060***
Corrective Action Plan	• In October 2013, the CACFP sponsor application process was amended to ensure compliance with the administrative capability requirements. • The Department will develop a process for compliance, at the state and local level, with requirements for the for-profit subrecipients participating in the CACFP program.
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 October 2013, the CACFP sponsor application process was amended to ensure compliance with the administrative capability requirements. Completed • The Department will develop a process for compliance, at the state and local level, with requirements for the for-profit subrecipients participating in the CACFP program. In process.
Anticipated Completion Date (if not Fully corrected).	11/2014

Agency	U.S. Department of Education
Fiscal Year	2014
Reference Number	2013-011
Related Prior Year Findings	12-41
Related 2014 Findings	2014-011
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies, Special Education Cluster, State Fiscal Stabilization Fund - Race-to-the-Top Incentive Grants Recovery Act (84.010, S-84.389, 84.027, 84.173, S-84.392, S-84.395)
Type of Finding	Material Weakness, Non compliance
Compliance Requirement(s)	Equipment and Real Property Management
Criteria	*Control exception:* The A-102 Common Rule and its attachments found in 34 CFR 80 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The State of Delaware's Budget and Accounting Policy Manual, Section 13.2.3, states, "The federal threshold for asset tracking is $5,000, which is lower than the State's CAPITAL asset threshold. Agencies are responsible for ensuring that all assets valued between $5,000 and $25,000 that are purchased with federal funds are properly accounted for in the agency's NOCAP records. Assets valued above $25,000 that are purchased with federal funds are maintained in the State's CAPITAL asset listings." *Compliance exception:* Title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of $5000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established. A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a State. Local governments and Indian tribes shall follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. A-102 Common Rule requires that equipment be used in the program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained. When equipment with a current per unit fair market value of $5000 or more is no longer needed for a Federal program, it may be retained or sold with the Federal agency having a right to a proportionate (percent of

	Federal participation in the cost of the original project) amount of the current fair market value. Proper sales procedures shall be used that provide for competition to the extent practicable and result in the highest possible return.
Condition	The State-wide fixed asset register within FSF identifies equipment with a purchase price of at least $25,000 that was acquired with federal funds. However, the register does not include detail of the equipment by each individual federal award (i.e. CFDA #), and does not include equipment purchases between $5,000 and $25,000. In addition, certain individual state departments that administer federal programs do not maintain a subsidiary ledger outside of FSF in order to track and inventory federally funded equipment greater than $5,000 and they are not be able to rollforward the purchase and disposal activity during the fiscal year. Although many of the programs at the State have equipment purchases that are not significant to the overall federal programs, the three major programs cited (Title I, Special Education, and Race to the Top) had material purchases of equipment using federal awards. These programs also do not maintain a rollforward of equipment and real property purchases and disposals during the year.
Cause	While there are policies and procedures established by the State Department of Education, the School Districts do not consistently adhere to the policies and procedures to ensure the Program's maintain equipment rollforwards from year to year as well as determine whether the cumulative equipment balances are material to the program.
Effect	The Programs could be purchasing or disposing of equipment in a manner different than what is required by federal regulations.
Recommendation	We recommend the State Department of Education monitor compliance with their fixed asset policies and procedures as well as conduct a biannual inventory to validate the accuracy of the lists. This could be accomplished with coding to FSF property records or a separate subsidiary fixed asset ledger.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	***Kim Wells (Title I) and Mary Ann Mieczkowski (IDEA)***
Agency Contact Phone Number	***302-835-3326 (Wells) and 302-735-4211***
Corrective Action Plan	1. DE DOE will continue making available policies and procedures for equipment and property management on the DOE website. 2. DE DOE will continue providing guidance, technical assistance and resources on the DOE website and during grant and program specific technical assistance sessions. 3. DE DOE will continue to request and review inventory records, as applicable, during monitoring.
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	1. DE DOE will continue making available policies and procedures for equipment and property management on the DOE website. Guidance posted here. 2. DE DOE will continue providing guidance, technical assistance and resources on the DOE website and during grant and program specific technical assistance sessions. Guidance provided during regional in-person consolidated grant TA sessions 4/16/2014, 4/29/2014, 4/30/2014 and via webinar on 5/6/2014.

	3. DE DOE will continue to request and review inventory records, as applicable, during monitoring. Monitoring of inventory records was conducted by Title I, Title II and Perkins via desk audit in January 2014 for 1/3 of all LEAs in the state using this protocol. These programs plan to continue monitoring inventory records annually via a regular monitoring cycle using this monitoring protocol. IDEA and Title III intend to join in this monitoring process moving forward.
Anticipated Completion Date (if not Fully corrected).	5/2015

Agency	U.S. Department of Education
Fiscal Year	2014
Reference Number	2013-012
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies, Special Education Cluster, Improving Teacher Quality, Child and Adult Care Food Program (84.010, S-84.389; 84.027, 84.173, S-84.392; 84.367; 10.558)
Type of Finding	Material Weakness, Material Noncompliance
Compliance Requirement(s)	Reporting (FFATA)
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting. The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts. As provided in 2 CFR part 170 and FAR Subpart 4.14, respectively, Federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204- 10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act. Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. They first are required to register in Central Contractor Registration (CCR) (if they have not done so previously for another purpose, e.g., submission of applications through Grants.gov) and actively maintain that registration. Additionally, in accordance with 2 CFR Chapter 1, Part 170 REPORTING SUB-AWARD AND EXECUTIVE COMPENSATION INFORMATION, Prime Awardees awarded a federal grant are required to file a FFATA sub-award report by the end of the month following the month in which the prime awardee awards any sub-grant equal to or greater than $25,000. Reporting requirements shall include the following key data elements about the first-tier subrecipients and subawards under grants and cooperative agreements: subaward date, Subawardee DUNS number, amount of subaward, Subaward Obligation/Action Date, Date of Report Submission, and Subaward Number.

<table>
<tr><td><i>Condition</i></td><td>Condition:
The State has an obligation to report subaward data as required under the Federal Funding Accountability and Transparency Act (FFATA). This includes entity information, DUNS number, Parent DUNS number, and relevant executive compensation data, if applicable.

Title I Grants to Local Educational Agencies, Special Education Cluster, and Improving Teacher Quality program funds are passed from the State’s Department of Education to the State’s school districts, which are included within the State’s primary government. The school districts did not perform any kind of analysis to determine which of their vendors qualify as subgrantees and thus are subject to FFATA reporting requirements. The table below shows the number of vendors the school districts utilized:

<table>
<tr><th></th><th>Number of school districts selected for testing receiving federal funds</th><th>Number of vendors utilized by the school district's selected for testing</th><th>Total expenditures to the vendors for the school districts selected for testing</th><th>Total Non-payroll expenditures for all school districts</th></tr>
<tr><td>Title I</td><td>8</td><td>82</td><td>$ 5,209,566</td><td>$ 10,723,718</td></tr>
<tr><td>Special Education Cluster</td><td>8</td><td>54</td><td>$ 3,857,858</td><td>$ 11,183,985</td></tr>
<tr><td>Improving Teacher Quality</td><td>4</td><td>10</td><td>$ 315,881</td><td>$ 2,385,044</td></tr>
</table>

In addition, for the Child and Adult Care Food program, the requirements for subawards subject to FFATA were applicable for the entire fiscal year. However, the State did not begin reporting the required information until April 2013.</td></tr>
<tr><td><i>Cause</i></td><td>The State and related school districts do not have procedures in place to ensure FFATA reporting requirements are being met.</td></tr>
<tr><td><i>Effect</i></td><td>The State is not in compliance with the reporting requirements of FFATA as it did not properly report the required subaward data for its Child and Adult Food Care Program in a timely manner. In addition, the school districts did not report the required data for subrecipients for programs funded through the State’s Department of Education.</td></tr>
<tr><td><i>Recommendation</i></td><td>We recommend that the State and school districts implement procedures to properly report subaward and sub-contract data as required under FFATA.</td></tr>
<tr><td><i>Questioned Costs</i></td><td>There are no questioned costs associated with this finding.</td></tr>
<tr><td><i>Agency Contact Name</i></td><td><i>Eulinda DiPietro</i></td></tr>
<tr><td><i>Agency Contact Phone Number</i></td><td><i>302-735-4016</i></td></tr>
<tr><td><i>Corrective Action Plan</i></td><td>The Delaware Office of Management and Budget and Department of Education disagrees with this finding and is seeking additional clarification and counsel from the U.S. Office of Management and Budget to determine if LEAs are required to complete FFATA reporting</td></tr>
</table>

	when the Delaware Department of Education is the grant recipient and issues the funds to LEAs as a subgrant.
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 Delaware Office of Management and Budget and Department of Education disagrees with this finding and is seeking additional clarification and counsel from the U.S. Office of Management and Budget to determine if LEAs are required to complete FFATA reporting when the Delaware Department of Education is the grant recipient and issues the funds to LEAs as a subgrant. Pending
Anticipated Completion Date (if not Fully corrected).	11/2014

Agency	U.S. Department of Health and Human Services
Fiscal Year	2014
Reference Number	2013-013
Related Prior Year Findings	12-13
Related 2014 Findings	2014-030
Program Name (CFDA No.)	Supplemental Nutrition Assistance Program Cluster (SNAP) (10.551, 10.561); Temporary Assistance for Needy Families (TANF) (93.558)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Reporting (SEFA Reconciliation)
Criteria	The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The SEFA is prepared by the auditee, and must be presented fairly in all material respects in relation to the auditee's financial statements as a whole. The SEFA represents the expenditures subject to audit under the Single Audit. *45.CFR.92.20 (b) The financial management systems of other grantees and subgrantees must meet the following standards:* *1. Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant;* *2. Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.* The regulation effectively requires that the Federal Financial reports are to be supported by the official books and records of the grantee.
Condition	Expenditures reported to the federal agencies for both SNAP and TANF did not agree to expenditures presented on the Schedule of Expenditure of Federal Awards (SEFA), which comes from the State's general ledger. Program management and the Division of Management Services (DMS) were unable to provide explanations or reconcile the following variances:

SNAP			
	6/30/2013	**Variance to SEFA**	**Percentage Variance**
Federal Expenditures Per SEFA*	$ 11,393,950		
Federal Expenditures Reported	$ 10,757,817	$ 626,133	5.50%

TANF			
	6/30/2013	**Variance to SEFA**	**Percentage Variance**
Federal Expenditures Per SEFA	$ 29,609,413		
Federal Expenditures Reported	$ 19,028,006	$ 10,581,407	55.61%

** This amount excludes non-cash items*

Cause	There are many potential causes for differences in the numbers reported above including 1) scope of grants included in federal financial reports differing from SEFA reports, 2) adjustments being made to reporting that cross programs or periods, 3) differences in coding of underlying data in the reporting module, 4) settlements with federal government requiring adjustment, and 5) errors made by program personnel. The differences cannot be reconciled because there is no procedure in place for the State agencies to reconcile total expenditures reported in the financial reports to the Federal Government as compiled from the State's general ledger system (FSF) to the reports from FSF that are the source of the SEFA.
Effect	Expenditures reported in federal financial reports may be misstated which results in the Federal Government having inaccurate information about the expenditures that were incurred by the programs. The lack of reconciliation may also result in inaccurate draw downs of cash for the federal programs. See findings **2013-019** and **2013-020** for known errors in financial reporting.
Recommendation	We recommend that the Divisions ensure they are performing reconciliations of expenditures per federal financial reports to expenditures coded to their CFDA numbers in FSF.
Questioned Costs	Unreconciled variances listed above may be questioned costs.
Agency Contact Name	***Robert Bubacz***
Agency Contact Phone Number	***302-255-9247***
Corrective Action Plan	The Department of Health and Social Services believes that the reason for the cited variance is due to reporting errors on submitted SNAP and TANF reports. DHSS recognized this as a problem and as a result in FY-14, DHSS brought in outside technical assistance in an effort to expand the documentation review/ procedures for preparing the quarterly SNAP and TANF reports. This outside assistance includes a heightened level of review and quality control of the supporting work papers for the reports prior to submission. We believe that this enhanced level of support during the reporting process will address the:

	• Need for a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the report; • The need to strengthen policies and procedures surrounding obtaining and reconciling the expenditure support and DGL123 reports from all departments incurring costs relating to the SNAP and TANF Programs prior to preparation and submission of the Federal Financial reports. This will include the creation of checklists and supporting procedures to enhance the depth of polices/procedures. Additionally, DHSS will include in the outside technical assistance review/quality control process a reconciliation of the expenditure reports to the State Financial System as part of the preparation of quarterly federal reports. The technical assistance effort began in earnest later in FY-14 (1/1/14) and will be substantially used for the report to be submitted for the quarter ending 3/31/14.
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 response to this finding, the Department of Health and Social Services (DHSS) believes the reason for the cited variance is due to reporting errors on submitted SNAP and TANF reports. Recognizing this problem, in FY-14, DHSS brought in outside technical assistance in an effort to expand the documentation review/ procedures for preparing the quarterly SNAP and TANF report. This outside assistance includes a heightened level of review and quality control of the supporting work papers for the reports prior to submission. This includes a reconciling expenditure reports from the State Financial System as part of the procedure for preparing the quarterly federal reports. The technical assistance effort began in earnest later in FY-14 (1/1/14) and was substantially used for the reports submitted for the quarter ending 3/31/14. It will continue to be used as we press forward in improving the quality of the reports. The TANF report error was corrected on the 3/31/14 report submitted on 5/23/14. The SNAP report data was researched and corrected reports were submitted on 5/23/14. The internal review/outside technical review process continues to be developed and refined as we move forward. Additional reporting errors occurred on SNAP and TANF reports after the period of this audit. DHSS will make the necessary corrections to correct the reports and further refine the internal review process and quality control effort employed by the outside technical assistance.
Anticipated Completion Date (if not Fully corrected).	Report for quarter ending 3/31/15.

Agency	U.S. Department of Agriculture; Centers for Disease Control and Prevention
Fiscal Year	2014
Reference Number	2013-014
Related Prior Year Findings	N/A
Related 2014 Findings	2014-034
Program Name (CFDA No.)	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) (10.557); Immunization Cluster (93.268)
Type of Finding	Significant Deficiency, Non Compliance
Compliance Requirement(s)	Allowable Costs (Effort Reporting)
Criteria	The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The COSO framework for Internal control consists of five interrelated components. These are derived from the way management runs a business, and are integrated with the management process. Two of the control components are: • Control Activities—Control policies and procedures must be established and executed to help ensure that the actions identified by management as necessary to address risks to achievement of the entity's objectives are effectively carried out. • Monitoring—The entire process must be monitored, and modifications made as necessary. In this way, the system can react dynamically, changing as conditions warrant. Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences

<table>
<tr><td></td><td>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)</td></tr>
<tr><td><i>Condition</i></td><td>We sampled 40 Information Resource Management (IRM) payroll expenditures over 4 major programs at DHSS (Child Support Enforcement, Immunization Cluster, PHEP, and Special Supplemental Nutrition Program for Women, Infants, and Children [WIC]), reviewed supporting documentation, and interviewed the employees to determine if they actually performed the work as charged and if the certifications provided during the audit were the certifications submitted by the employee. Our testing identified one WIC program Time and Effort certification that was not dated for one quarter and therefore cannot be validated as an after the fact distribution of the actual activity of the employee. We also identified 8 Immunization transactions totaling $13,803, where the employee was not 100% charged to the grant, and the Time and Effort certification was not completed on at least a monthly basis.

Total payroll expended for the WIC and Immunization programs were $2,703,030 and 1,010,639, respectively, which includes IRM payroll charges. Additionally, total payroll expended by IRM over DHSS’s major programs was $1,047,401. Below is the distribution of the samples selected for testing per DHSS’ major program.

<table>
<tr><th>Program</th><th>CDFA#</th><th>No. of Samples Tested</th><th>$ Value of Samples Tested</th><th>No. of Exceptions</th><th>$ Value of Exceptions</th></tr>
<tr><td>Child Support Enforcement</td><td>93.563</td><td>20</td><td>44,471</td><td>-</td><td>-</td></tr>
<tr><td>Immunization Cluster</td><td>93.268</td><td>13</td><td>29,918</td><td>8</td><td>$ 13,803</td></tr>
<tr><td>Public Health Emergency Preparedness (PHEP)</td><td>93.069</td><td>3</td><td>10,034</td><td>-</td><td>-</td></tr>
<tr><td>Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)</td><td>10.557</td><td>4</td><td>9,966</td><td>1</td><td>$ 2,491</td></tr>
<tr><td>Total</td><td></td><td>40</td><td>$ 94,389</td><td>9</td><td>$ 16,294</td></tr>
</table>
</td></tr>
<tr><td><i>Cause</i></td><td>The exceptions occurred because IRM does not have appropriate policies and procedures in place as to a when certification has to be prepared and reviewed. Additionally, when the employee’s effort is reduced from 100%, the frequency of time and effort certifications is not modified. As a result, the design of the effort reporting policy is not appropriate for employees who work on multiple grant programs.</td></tr>
<tr><td><i>Effect</i></td><td>Employees are recording payroll charges to the federal grant that are not properly documented.</td></tr>
</table>

Recommendation	We recommend that DHSS ensure Time and Effort certifications contain an adequate level of supervisory review and are in compliance with the federal requirements. We suggest that DHSS conduct annual training on the regulations and policies and procedures associated with effort reporting and include the training as part of new employee orientation.
Questioned Costs	Questioned costs related to the errors in the sample are $16,294.
Agency Contact Name	***Kevin F. Kelley, Sr. DMS Director***
Agency Contact Phone Number	***(302) 255-9088***
Corrective Action Plan	A departmental policy on time and effort reporting is in the process of being formulated. This policy will be departmental in scope and once complete, it will be issued and disseminated departmentally. It will include the requirement, basis and importance of effort reporting, frequency and, where needed, to align/recode payroll charges to reflect effort as a required and ongoing process. It will also include the appropriate standards for monitoring/review of employee time/effort certifications by supervisors. Subsequently, training will be provided to departmental staffs completing effort reports as well as managers who supervise those staff. Regarding the suggested annual training included in the recommendation, DHSS will review the logistics and resources related to providing this training on an annual basis. Additionally, regarding it being included in new employee training, DHSS will look into how this could be accomplished as the effort reporting requirement is only applicable to certain staff.
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 response to this finding, and the exceptions noted in the Condition, we stated the following observations and response. • One (1) time and effort certification tested was in error not dated by the employee and therefore considered not properly completed. **The employee unfortunately, did not date the effort report but we would like to state that the work activities performed by the employee and cost supported and are allowable under WIC.** • Eight (8) Immunization transactions totaling $13,803, where the employee was not 100% charged to the grant, and the Time and Effort certification was not completed on at least a monthly basis. **It should be pointed out that the employee recorded their time and work activities on a daily basis into a time study system. While the certification was done quarterly, the actual time was recorded on a daily basis upon which the final payroll charges to the multiple activities (including the Immunization grant) were based. The costs are allowable under the Immunization program and were based upon actual time devoted to supporting the program.** • **Therefore no repayment of funds are due.** Additionally, as an update: • A departmental policy on time and effort reporting has been formulated. DHSS brought on a consultant to review the policy draft and enhance its content prior to its being disseminated departmentally. As noted in our finding response, this policy is

	departmental in scope and application. It includes the requirement, basis and importance of effort reporting, frequency and need to align/recode payroll charges to reflect effort as a required and ongoing process. The policy is presently going through the department policy approval process. It is anticipated that the policy will be issued in August 2014. • The consultant has designed a training that will be provided to departmental staffs who complete effort reports as well as managers who supervise those staff. Training sessions are scheduled for 7/14 and 7/15/14.
Anticipated Completion Date (if not Fully corrected).	Training: July 2014 Policy: August 2014

Agency	U.S. Department of Health and Human Services
Fiscal Year	2014
Reference Number	2013-015
Related Prior Year Findings	12-26
Program Name (CFDA No.)	Low Income Home Energy Assistance Program (93.568)
Type of Finding	Material Weakness, Material Noncompliance
Compliance Requirement(s)	Reporting/ Period of Availability
Criteria	<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). <u>Period of Availability</u> At least 90 percent of the LIHEAP block grant funds payable to the grantee must be obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or carried over) for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to ACF. There are no limits on the time period for expenditure of funds (42 USC 8626). Leveraging incentive award funds and REACH funds must be obligated in the year in which they are awarded or the following fiscal year, without regard to the carryover limit. However, they may not be added to the base on which the carryover limit is calculated (45 CFR sections 96.87(j)(1) and (k)). Funds not obligated within these time periods must be returned to ACF (45 CFR section 96.87(k)). LIHEAP emergency contingency funds are generally subject to the same obligation and expenditure requirements applicable to the LIHEAP block grant funds, but the contingency award letter should be reviewed to see if different requirements were imposed.
Condition	LIHEAP did not correctly prepare the annual Carryover & Reallotment Report for federal fiscal year ending September 30, 2012. The amount reported as the "Projected Unobligated balance" was the maximum amount allowed to be carried over, $1,195,690 (10% of total available funds awarded, however, First State Financials (FSF) only showed $1,036,962 was remaining to be spent. In addition, LIHEAP during the year transferred another 10% of their funds ($1,195,690) to DNREC to utilize but the funds had not been spent or encumbered as of the report date.

	LIHEAP also incorrectly excluded this transfer from their calculation of the "Projected Unobligated Balance". As a result of these two items, the report and its supporting detail contained the following errors: • The reported "Projected Unobligated balance" should have been $2,232,652, which consists of the remaining balance in FSF of $1,036,962 and the $1,195,690 not spent or obligated by DNREC. Therefore, the "Projected Unobligated balance" was understated by $1,036,962. • As a result, the reported "Reallotment amount" of $0 was understated by $1,036,962. The amount reported should have been $1,036,962.
Cause	LIHEAP incorrectly reported the maximum amount allowed to be reported rather than what was in FSF for unencumbered funds. Also, LIHEAP did not follow up with DNREC prior to submitting the report in August to determine if the $1,195,960 of FY12 funds transferred were expected to be expended or obligated by DNREC by the September 30 report cut off date. LIHEAP discovered after submission of the report that DNREC had not expended or obligated the $1,195,960 of funds as of September 30, 2012 and LIHEAP received the funds back on September 4, 2012.
Effect	LIHEAP carried over to the next fiscal year more than 10% of the allowed amount and, as such, reported incorrect amounts to the Federal Government. In addition, since LIHEAP did not obligate at least 90% of the funds, the Program must return unobligated funds above the 10% carryover threshold.
Recommendation	We recommend that LIHEAP continuously monitor funds that have been transferred to other State agencies to understand and report the actual amount expended. Additionally, they should update and resubmit any incorrect reports.
Questioned Costs	There questioned costs associated with this finding are $1,036,962 which represents the excess unobligated funds carryover.
Agency Contact Name	***Cynthia Manlove***
Agency Contact Phone Number	***302-255-9692***
Corrective Action Plan	LIHEAP will ensure that entities in receipt of transferred LIHEAP funds submit quarterly and annual reports of all expenditures and vendor payments as required by Memoranda of Agreement. The Division of State Service Centers/LIHEAP will monitor the entities monthly (but no less frequently than quarterly) to understand and report the actual amount expended. In addition, LIHEAP will follow up with the appropriate entities prior to submitting the report in August to determine if the funds transferred are expected to be expended or obligated by the September 30 report cut-off date. LIHEAP will submit a corrected FFY12 Reallotment Report which will (1) correct the reporting error and the understated unobligated balance, and (2) effectively return the $1,036,962.70 in unobligated funds (in excess of the 10%) which cannot be carried forward.
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 January 2014, the division instituted a procedure to ensure that entities in receipt of transferred LIHEAP funds submit quarterly and annual reports of all expenditures and vendor payments as required by Memoranda of Agreement. The Division of State Service Centers/LIHEAP continues to monitor the entities monthly (but no less frequently than quarterly) to understand and report the actual amount expended. In addition, LIHEAP will follow up with the appropriate entities prior to submitting the report in August to determine if the funds transferred are expected to be expended or obligated by the September 30 report cut-off date. LIHEAP submitted a corrected FFY12 Reallotment Report on 1/31/14 which (1) corrected the reporting error and the understated unobligated balance, and (2) effectively returned the $1,036,962.70 in unobligated funds (in excess of the 10%) which could not be carried forward. Additionally, in August of 2014, DSSC/LIHEAP implemented it's new policy of using FSF available funds balance to determine the expected carryover submitted on the August 1 annual report.
Anticipated Completion Date (if not Fully corrected).	

Agency	U.S. Department of Health and Human Services
Fiscal Year	2014
Reference Number	2013-016
Related Prior Year Findings	12-20
Program Name (CFDA No.)	Child Care Cluster (93.575, 93.596)
Type of Finding	Material Weakness, Non Compliance
Compliance Requirement(s)	Allowable Costs (Effort Reporting)
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit’s system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

	Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including: • The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results. • The entire time period being sampled. • The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)
Condition	DSS uses Time Distribution sheets as a mechanism to allocate the time charged by employees to various State and Federal initiatives. They are prepared by the employee and reviewed by a supervisor. During the testing of allowable costs for payroll, thirteen out of nineteen employees sampled submitted Time and Effort reports and/or time distribution sheets that were not properly approved and reviewed by a supervisor for multiple pay cycles, were not properly certified, or were otherwise incorrectly prepared as described below. This represented seventeen out of sixty-five payroll transactions examined. The thirteen employees charged $15,498 to the program out of our sample of $97,214. Total payroll expended for the program was $1,259,479. Of the nineteen employees tested, the following exceptions were found: • Four (4) time and effort certifications tested were not dated by the employee and therefore considered not properly completed. • Nine (9) time and effort certifications and/or time distributions tested were not properly approved by the employee's supervisor. • One (1) time and effort certification tested was approved by the supervisor 10 months after the employee completed the certification (on the date of the audit request). • One (1) employee tested resigned effective October 5, 2012 but the program was still charged for the period October 8, 2012 through October 20, 2012. • Three (3) time and effort certifications tested were certified prior to the end of the period being certified. • One (1) employee tested did not prepare a time and effort certification and the employee is correctly deemed to have worked 100% to the CCDF Program. • Eight (8) out of 65 payroll charges tested charged the program more than the employee certified in their time and effort certification and/or time distribution.
Cause	The exceptions occurred because these employees are part of the Delaware Department of Justice and the Delaware Department of Education, and the Division of Social Services does not have procedures established that require supervisor review and approval of time charged to the Federal grants from employees outside of DSS.
Effect	Incorrect or unapproved payroll charges are being recorded to the federal grant.
Recommendation	We recommend that DSS enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort reports as well as enhancing its policies and procedures in preparation of the time and effort certification to ensure compliance with the federal requirements. We suggest that DSS conduct annual training on the regulations, policy and procedure associated with effort reporting and include the training as part of new employee orientation.
Questioned Costs	Questioned costs related to unapproved, incorrect or inappropriate time and effort certifications in the sample are $15,498.

Agency Contact Name	***Ray Fitzgerald***
Agency Contact Phone Number	***302-255-9645***
Corrective Action Plan	A departmental policy on time and effort reporting is in the process of being formulated. This policy will be departmental in scope and once complete, it will be issued and disseminated departmentally. It will include the requirement, basis and importance of effort reporting, frequency and, where needed, to align/recode payroll charges to reflect effort as a required and ongoing process. It will also include the appropriate standards for monitoring/review of employee time/effort certifications by supervisors. Subsequently, training will be provided to departmental staffs completing effort reports as well as managers who supervise those staff. Additionally, DSS will design and put in place an effort reporting tracking system to ensure that CCDF effort reports are properly completed and tracked. This will include assigning an administrator to review effort reports and track the corrective action plan for this finding.
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	Regarding the exceptions noted in the Condition of this finding, we would like to provide the following observations and response. • Four (4) time and effort certifications tested were not dated by the employee and therefore considered not properly completed. **The employees unfortunately did not date the effort reports but the work activities and cost are allowable and support the CCDF program from the DE Department of Education.** • Nine (9) time and effort certifications and/or time distributions tested were not properly approved by the employee's supervisor. **Although A-87 does not require the supervisor's signature – it is a good control measure to have a supervisory review which will be incorporated into policy/procedures outlined in the corrective action. The work activities and costs reflected on the employees time certifications are allowable under CCDF.** • One (1) time and effort certification tested was approved by the supervisor 10 months after the employee completed the certification (on the date of the audit request). **The employee for this effort report is the CCDF Administrator for DE, writes and administers the State CCDF plan, etc. While it is certainly unfortunate that supervisory approval occurred in timing that it did, the work activities of the employee and time charged to CCDF are 100% allowable under the grant.** • One (1) employee tested resigned effective October 5, 2012 but the program was still charged for the period October 8, 2012 through October 20, 2012. **This payroll charge was for the payout to an employee upon leaving employment. Therefore the charge is allowable under the CCDF program. .** • Three (3) time and effort certifications tested were certified prior to the end of the period being certified. **We agree that the effort reports should not have been certified prior to the end of the period. While this is certainly unfortunate and should not have occurred, these employees work activities are completely devoted to the child care program and are allowable under CCDF. These work**

	activities encompass working with child care providers, creating and maintaining policy, managing CCDF funded contracts, CCDF quality initiatives, etc. • One (1) employee tested did not prepare a time and effort certification and the employee is correctly deemed to have worked 100% to the CCDF Program. **This employee should have completed an effort report, but unfortunately did not. While the effort report should have been completed, this employee's work is 100% devoted to CCDF in the areas of working with child care providers, creating and maintaining child care policy, etc.** • Six (6) out of 65 payroll charges tested charged the program more than the employee certified in their time and effort certification and/or time distribution. **DSS will recode $1,448.93 to State funds by 9/30/14.** • A departmental policy on time and effort reporting has been formulated. DHSS brought on a consultant to review the policy draft and enhance its content prior to its being disseminated departmentally. As noted in our finding response, this policy is departmental in scope and application. It includes the requirement, basis and importance of effort reporting, frequency and need to align/recode payroll charges to reflect effort as a required and ongoing process. The policy is presently going through the department policy approval process. It is anticipated that the policy will be issued in September 2014. • The consultant has designed a training that will be provided to departmental staffs who complete effort reports as well as managers who supervise those staff. Training sessions are scheduled for 7/14 and 7/15/14. • Additionally, DSS designed and put in place an effort reporting tracking system to ensure that TANF effort reports are properly completed and tracked. This includes assigning an administrator to review effort reports and track the corrective action plan for this finding. This was put in place effective 7/1/14.
Anticipated Completion Date (if not Fully corrected).	Training: July 2014 Policy: March 2015 Recodes: 9/30/14

Agency	U.S. Department of Health and Human Services
Fiscal Year	2014
Reference Number	2013-017
Related Prior Year Findings	N/A
Related 2014 Findings	2014-025
Program Name (CFDA No.)	Temporary Assistance for Needy Families (TANF) (93.558)
Type of Finding	Material Weakness, Non Compliance
Compliance Requirement(s)	Allowable Costs (Effort Reporting)
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensate d; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

	Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including: • The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results. • The entire time period being sampled. • The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.
Condition	DSS uses Time Distribution sheets as a mechanism to allocate the time charged by employees to various State and Federal initiatives. They are prepared by the employee and reviewed by a supervisor. Payroll expenditure testing for allowable costs revealed that eight out of fifteen employees sampled submitted Time and Effort reports/Time Distribution sheets which were not properly approved and reviewed by a supervisor for multiple pay cycles, were not properly certified, or were otherwise incorrectly prepared as described below. This represented seventeen out of forty payroll transactions examined. The eight employees charged $2,010 to the program out of our sample of $31,022. Total payroll expended for the program was $3,046,070. Of the fifteen employees tested, the following exceptions were found: • One (1) time and effort certification tested was not dated by the employee and therefore considered not properly completed. Costs charged to the program amounted to $76. • Six (6) time and effort certifications and/or time distributions tested were not properly approved by the employee's supervisor. These control exceptions amounted to $1,811. • Two (2) time and effort certifications or time distributions were not provided as they could not be located. These amounted $198. • Nine (9) out of 40 payroll charges tested charged the program more than the employees certified in their time and effort certifications and/or time distributions. These amounted to $273. • Five (5) out of the forty payroll charges tested charged the program less than the employees certified in their time and effort certifications and/or time distributions. This undercharge amounted to $2,598.
Cause	The exceptions occurred because these employees are part of the Delaware Department of Justice and the Division of Social Services does not have procedures established that require supervisor review and approval of time charged to the federal grants from employees outside of DSS.
Effect	Employees are recording the incorrect or unapproved payroll charges to the federal grant.
Recommendation	We recommend that DSS enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort reports as well as enhancing its policies and procedures in preparation of the time and effort certification to ensure compliance with the federal requirements. We suggest that DSS conduct annual training on the regulations, policy and procedure associated with effort reporting and include the training as part of new employee orientation.
Questioned Costs	Questioned costs related to unapproved, incorrect or inappropriate time and effort certifications in the sample are $547.

Agency Contact Name	***Ray Fitzgerald***
Agency Contact Phone Number	***302-255-9645***
Corrective Action Plan	A departmental policy on time and effort reporting is in the process of being formulated. This policy will be departmental in scope and once complete, it will be issued and disseminated departmentally. It will include the requirement, basis and importance of effort reporting, frequency and, where needed, to align/recode payroll charges to reflect effort as a required and ongoing process. It will also include the appropriate standards for monitoring/review of employee time/effort certifications by supervisors. Subsequently, training will be provided to departmental staffs completing effort reports as well as managers who supervise those staff. Additionally, DSS will design and put in place an effort reporting tracking system to ensure that TANF effort reports are properly completed and tracked. This will include assigning an administrator to review effort reports and track the corrective action plan for this finding.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As an update: • A departmental policy on time and effort reporting has been formulated. DHSS brought on a consultant to review the policy draft and enhance its content prior to its being disseminated departmentally. As noted in our finding response, this policy is departmental in scope and application. It includes the requirement, basis and importance of effort reporting, frequency and need to align/recode payroll charges to reflect effort as a required and ongoing process. The policy is presently going through the department policy approval process. It is anticipated that the policy will be issued in September 2014. • The consultant has designed a training that will be provided to departmental staffs who complete effort reports as well as managers who supervise those staff. Training sessions are scheduled for 7/14 and 7/15/14. • Additionally, DSS designed and put in place an effort reporting tracking system to ensure that TANF effort reports are properly completed and tracked. This includes assigning an administrator to review effort reports and track the corrective action plan for this finding. This was put in place effective 7/1/14.
Anticipated Completion Date (if not Fully corrected).	Training: July 2014 DSS effort reporting tracking system: July 1, 2014 Policy: September 2014

Agency	U.S. Department of Health and Human Services
Fiscal Year	2014
Reference Number	2013-018
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Temporary Assistance for Needy Families (TANF) (93.558)
Type of Finding	Material Weakness, Non Compliance
Compliance Requirement(s)	Penalty for Failure to Comply with Work Verification Plan
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* Per 45 CFR sections 261.60, 261.61, 261.62, 261.63, 261.64, and 261.65, the State agency must maintain adequate documentation, verification, and internal control procedures to ensure the accuracy of the data used in calculating work participation rates. In so doing, it must have in place procedures to (a) determine whether its work activities may count for participation rate purposes; (b) determine how to count and verify reported hours of work; (c) identify who is a work-eligible individual; and (d) control internal data transmission and accuracy. Each State agency must comply with its HHS-approved Work Verification Plan in effect for the period that is audited. HHS may penalize the State by an amount not less than one percent and not more than five percent of the SFAG for violation of this provision (42 USC 601, 602, 607, and 609).
Condition	For 5 out of 40 cases sampled, the Division of Social Services (DSS) was unable to provide documentation to support that work verification was performed. DCIS-II is the State's beneficiary database. The five identified exceptions are as follows: • DCIS-II was not updated to reflect the attainment of employment during the State fiscal year ended June 30, 2013 for 1 participant examined. • DCIS-II indicated employment for 2 participants; however, DSS was unable to provide proof that work verification has been completed. • DCIS-II indicated loss of employment in May 2012 for 1 participant; however, DSS was unable to provide proof that work verification has been completed. • DCIS-II indicated 1 participant to have been most recently employed in 2005; however, evidence of post-2005 employment was observed. Benefits provided to the 5 recipients were $2,864 while benefits provided to the recipients sampled were $152,666. Total benefits provided through the program were $20,770,469.
Cause	The Department of Health and Social Services procedures do not include a supervisory review or system edit check to validate appropriate employment information has been

	entered into the DCIS-II system with hardcopy evidence uploaded in Document Imaging System (DIS). There is also a deficiency in the routine triggering redetermination of case file information needed to maintain current data on each case file's work status.
Effect	Without the proper work verification procedures control in place, DSS may not detect or deter noncompliance, and DSS may continuously allow participants to benefit from the program even though they are no longer in compliance with the federal requirements.
Recommendation	We recommend that the Department of Health and Social Services implement necessary policies and procedures surrounding work verification activities for all TANF applicants/recipients in order to maintain up-to-date information with appropriate supporting documentation within both DCIS-II and DIS.
Questioned Costs	There are $2,864 of questioned costs associated with the items noted above.
Agency Contact Name	***Ray Fitzgerald***
Agency Contact Phone Number	***302-255-9645***
Corrective Action Plan	DSS will add employment verification review language to the Supervisory tool we use to review a random sample of cases for accuracy each month. DSS will also expand its centralized electronic filing system so that the system will be in all state offices by the end of May 2014. This expansion will create a secure, consistent and uniformed statewide filing system that will improve the availability and retrieval of client information as well as standardizing the labeling of documents statewide. The case review changes will ensure that required documentation is received and the DIS expansion will ensure that all documents received are uploaded into the DIS system and retrievable because they are labeled properly. Additionally, DSS will recode the questioned costs to State funds.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The following updates are provided to the corrective action. • As indicated in the finding response, DSS added employment verification review language to the Supervisory tool used to review a random sample of cases for accuracy. This was completed by 6/30/14. • DSS has expanded its centralized electronic filing system so that the system will be in all state offices. This was completed 4/30/14 (ahead of the 5/31/14 date contained in the finding response). • DSS recoded the questioned costs to State funds in July 2014 which will be reflected on the Federal report submitted for the quarter ending 9/30/14.
Anticipated Completion Date (if not Fully corrected).	Upon submission of 9/30/14 report by 10/15/14.

Agency	U.S. Department of Health and Human Services
Fiscal Year	2014
Reference Number	2013-019
Related Prior Year Findings	N/A
Related 2014 Findings	2014-020
Program Name (CFDA No.)	Temporary Assistance for Needy Families (TANF) (93.558)
Type of Finding	Material Weakness, Material Noncompliance
Compliance Requirement(s)	Reporting
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exception:* Per 45 CFR Section 265.3(c), “(1) Each State must file quarterly expenditure data on the State’s use of Federal TANF funds, State TANF expenditures, and State expenditures of MOE funds in Separate State programs. (2) If a State is expending Federal TANF funds received in prior fiscal years, if must file a separate quarterly TANF Financial Report (or, as applicable, Territorial Financial Report) for each fiscal year that provides information on the expenditures of that year’s TANF funds.”
Condition	The testing of two quarterly ACF-196 reports revealed the following errors which were not detected during management’s review and submission of reports: 1. The total TANF federal amount of $10,897,231 as reported on line 7 (columns A and D) on the ACF- 196 report for March 31, 2013 did not reconcile to the amount of $14,674,497 reflected on the State’s financial system (FSF) or intermediary supporting documentation provided. 2. The total TANF federal amount of $17,897,047 reported on line 7 (columns A and D) on the ACF-196 report for June 30, 2013 did not reconcile to the amount of $19,421,518 reflected on the State’s financial system (FSF) or intermediary supporting documentation provided. 3. The Child Care Non-Assistance amount of $7,431,553 reported on line 6b on the ACF-196 Report for June 30, 2013 was incorrectly calculated. The amount reported was understated by $1,209,453 because this amount was deducted twice in the supporting Excel calculation.

4. The ‘Non-Recurrent Short Term Benefits’ amount of $59,776 as reported on line 6g was entered on the incorrect line of the ACF-196 Report for June 30, 2013. This amount was actually ‘Administration’ and should have been reported on line 6j.

5. The ‘Administration’ amount of $3,607,224 as reported on line 6j was understated by $374,794 because expenditures from other departments were omitted.

The ACF-196 is a cumulative report filed quarterly. The table below summarizes identified errors within the March and June 2013 reports:

	FSF / Audited Amt	**ACF-196**	**ACF-196 v Audited Amt**
March 31,2013			
Total Expenditures	$ 14,674,497	$ 10,897,231	$ (3,777,266)
June 30,2013			
Child Care Non-Assistance	$ 8,641,006	$ 7,431,553	$ (1,209,453)
Non-Recurrent Short Term Benefits	$ -	$ 59,776	$ 59,776
Administration	$ 3,982,018	$ 3,607,224	$ (374,794)
Total Expenditures	$ 9,241,518	$ 17,897,047	$ (1,524,471)
Cumulative Difference at 6/30/2013			$ (1,524,471)

Cause	Multiple State agencies expend TANF funds and the Department of Health and Social Services does not have a procedure in place to obtain and reconcile other State department expenditures that are included within the ACF-196 reports. Additionally, several mathematical and other errors are due to preparer error and the absence of a detailed review.
Effect	Misstated federal financial reports result in the Federal Government having inaccurate information about the expenditures that were incurred by the programs. Since all amounts drawn down are based on the State’s financial system, amounts drawn were not affected. These reports are cumulative and the amounts from June 30, 2013 are carried forward potentially causing subsequent reports to be incorrect.
Recommendation	We recommend that the Department of Health and Social Services submit a revised report to correct these misstatements. We further recommend that the Department of Health and Social Services implement policies and procedures surrounding obtaining and reconciling the expenditure support and DGL123 reports from all departments incurring costs relating to the TANF Program prior to preparation and submission of the Federal Financial reports. We also recommend implementation of a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the report.
Questioned Costs	*Total TANF Expenditures* Total Expenditure Per ACF-196 $ 17,897,047 Total Correct Expenditure $ 19,421,518 ***Under-reported Cost ($ 1,524,471)***
Agency Contact Name	***Robert Bubacz***

Agency Contact Phone Number	***302-255-9247***
Corrective Action Plan	The Department of Health and Social Services will submit a revised report to correct the cited reporting errors. We would also like to state that in FY-14, DHSS brought in outside technical assistance in an effort to expand the documentation review/ procedures for preparing the quarterly TANF report. This outside assistance includes a heightened level of review and quality control of the supporting work papers for the reports prior to submission. We believe that this enhanced level of support during the reporting process will address: • The need for a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the report; • The need to strengthen policies and procedures surrounding obtaining and reconciling the expenditure support and DGL123 reports from all departments incurring costs relating to the TANF Program prior to preparation and submission of the Federal Financial reports. This will include the creation of checklists and supporting procedures to enhance the depth of polices/procedures. Additionally, DHSS will include in the outside technical assistance review/quality control process a reconciliation of the expenditure reports to the State Financial System as part of the preparation of quarterly federal reports. The technical assistance effort began in earnest later in FY-14 (1/1/14) and will be substantially used for the report to be submitted for the quarter ending 3/31/14.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As described in the finding responses, initial corrective action steps were put in place January 2013 for this finding. Subsequently, recognizing problems with reporting accuracy, in FY-14, DHSS brought in outside technical assistance in an effort to expand the documentation review/ procedures for preparing the quarterly TANF report. This outside assistance includes a heightened level of review and quality control of the supporting work papers for the reports prior to submission. The technical assistance effort began in earnest later in FY-14 (1/1/14) and was substantially used for the report to be submitted for the quarter ending 3/31/14. DHSS reviewed the prior submission made corrections on the 3/31/14 report which was submitted on 5/23/14.
Anticipated Completion Date (if not Fully corrected).	July 1, 2014

Agency	U.S. Department of Health and Human Services
Fiscal Year	2014
Reference Number	2013-020
Related Prior Year Findings	N/A
Related 2014 Findings	2014-019
Program Name (CFDA No.)	Supplemental Nutrition Assistance Program (SNAP) (10.551, 10.561)
Type of Finding	Material Weakness, Noncompliance
Compliance Requirement(s)	Reporting: Financial Reporting
Criteria	*Control exception:* The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exception:* SF-425, Federal Financial Report: 1) The submission of interim FFRs will be on a quarterly, semi-annual, or annual basis, as directed by the Federal agency. A final FFR shall be submitted at the completion of the award agreement. The following reporting period end dates shall be used for interim reports: 3/31, 6/30, 9/30, 12/31. For final FFRs, the reporting period end date shall be the end date of the project or grant period. 2) Quarterly and semi-annual interim reports shall be submitted no later than 30 days after the end of each reporting period. Annual reports shall be submitted no later than 90 days after the end of each reporting period. Final reports shall be submitted no later than 90 days after the project or grant period end date.
Condition	Testing of two quarterly SF-425 reports revealed the following errors on the June 30, 2013 report which were not detected during management's review and submission: 1. The 'Federal share of expenditures' amount of $9,314,536 as reported on line 10 of page 1 (item e) of the SF-425 does not reconcile to the expenditures reported in the State's financial system (FSF) of $9,437,173. This includes the elements below: a. The 'State Exchange' amount of $4,731 as reported on section 10, column 24 of the SF-425 does not reconcile to the expenditures reported in FSF of $2,365. b. The 'Certification' amount of $7,433,132 as reported on section 10, column 1 of the SF-425 does not reconcile to the expenditures reported in FSF of $7,625,748. c. The 'Fraud Control' amount of $12,759 as reported on section 10, column 5 of the SF-425 does not reconcile to the expenditures reported in FSF of $0.

d. The ‘Outreach’ amount of $10,221 as reported on section 10, column 17 of the SF-425 does not reconcile to the expenditures reported in FSF of $20,442.

e. The ‘ADP Development’ amount of $1,078,365 as reported on section 10, column 6 of the SF- 425 does not reconcile to the expenditures reported in FSF of $0.

f. The ‘ADP Operations’ amount of $140,075 as reported on section 10, column 7 of the SF-425 does not reconcile to the expenditures reported in FSF of $1,153,365. Additionally, Outreach modernization expenditures of $1,153,365 were miscoded to ADP Operations instead of ADP Development in FSF. The project is still in the Design, Development and Implementation (DDI) stage, and funding for the Maintenance and Operations (M&O) stage is not authorized until the 4th quarter of Federal Fiscal Year 2014.

These errors are summarized in the table below:

30-Jun-13				
	FSF	**SF-425**	**Audited Amt**	**SF-425 v Audited AMT**
Federal Share of Expenditures	$ 9,437,173	$ 9,314,536	$ 9,437,173	$ (122,637)
State Exchange	2,365.00	4,731.00	2,365.00	2,366.00
Certification	7,625,748.00	7,433,132.00	7,625,748.00	(192,616.00)
Fraud Control	-	12,759.00	-	12,759.00
Outreach	20,442.00	10,221.00	20,442.00	(10,221.00)
ADP Development/DDI	-	1,078,365.00	1,153,365.00	(75,000.00)
ADP Operations/ M&O	1,153,365.00	140,075.00	-	140,075.00
Net ADP ver Report				65,075.00

Cause

- The ‘Certification’ exception occurred because multiple state agencies expend SNAP funds and the Department of Health and Social Services does not have a procedure in place to obtain and reconcile other State department expenditures.
- The ‘State Exchange’ exception occurred because the amount was incorrectly doubled by the preparer when entered into the report.
- The ‘Fraud Control’ error occurred because this is an allocated amount which the preparer miscalculated in a previous report.
- The ‘Outreach’ exception occurred because of a misunderstanding of the required calculation by the preparer.
- The ‘ADP’ exceptions occurred because of preparer error and the absence of a detailed review.
- The ‘Federal share of expenditures’ is a summary of all reported expenditures on the SF-425 and contained the accumulation of all errors within the report. Additionally, the report did not properly account for a settlement with the federal agency.

Effect	Expenditures reported via the June 30, 2013 federal financial report are misstated and result in the Federal Government having inaccurate information about program expenditures.
Recommendation	We recommend that the Department of Health and Social Services implement policies and procedures to obtain and reconcile the expenditure support and DGL123 reports from all departments incurring costs relating to the SNAP Program. We also recommend a more thorough independent review process of the supporting workpapers created by the report preparer.
Questioned Costs	**June 30, 2013** Total Expenditures Per SF-425 $ 9,314,536 Total Expenditures Per FSF $ 9,437,173 ***Under-reported Cost ($ 122,637)***
Agency Contact Name	***Robert Bubacz***
Agency Contact Phone Number	***302-255-9247***
Corrective Action Plan	The Department of Health and Social Services will review the prior submission to correct the errors cited in this finding on the next cumulative report to be submitted on 4/30/14. We would also like to state that in FY-14, DHSS brought in outside technical assistance in an effort to expand the documentation review/ procedures for preparing the quarterly SNAP report. This outside assistance includes a heightened level of review and quality control of the supporting work papers for the reports prior to submission. We believe that this enhanced level of support during the reporting process will address the: • Need for a more thorough review process by someone other than the preparer to detect or deter input errors prior to the submission of the quarterly report; • The need to strengthen policies and procedures surrounding obtaining and reconciling the expenditure support and DGL123 reports from all departments incurring costs relating to the SNAP Program prior to preparation and submission of the Federal Financial reports. This will include the creation of checklists and supporting procedures to enhance the depth of polices/procedures. Additionally, DHSS will include in the outside technical assistance review/quality control process a reconciliation of the expenditure reports to the State Financial System as part of the preparation of quarterly federal reports. In the process of future report reconciliation, the agency will correct category mis-coding errors. We would also like to point out that the technical assistance effort has been in place and utilized in earnest with the SNAP reports submitted for the FY-14 quarters.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DHSS has reviewed the prior submission. As stated in the finding response, in FY-14, DHSS brought in outside technical assistance in an effort to expand the documentation review/ procedures for preparing the quarterly SNAP report. This outside assistance included a heightened level of review and quality control of the supporting work papers for the reports prior to submission and reconciling expenditure reports from the State Financial System as part of the procedure for preparing the quarterly federal reports. The technical assistance effort began in earnest later in FY-14 (1/1/14) and was substantially used for the reports

	submitted for the quarter ending 3/31/14. It will continue to be used as we press forward in improving the quality of the reports. An updated report was submitted for FFY13 in April 2014. The internal review/outside technical review process continues to be developed and refined as we move forward. Additional reporting errors occurred on SNAP reports after the period of this audit. DHSS will make the necessary corrections to correct the reports and further refine the internal review process and quality control effort employed by the outside technical assistance.
Anticipated Completion Date (if not Fully corrected).	Report for quarter ending 3/31/15.

STATE OF DELAWARE

Summary Status of Prior Year Findings
June 30, 2014

Agency	U.S. Department of Health and Human Services
Fiscal Year	2014
Reference Number	2013-021
Related Prior Year Findings	12-16
Program Name (CFDA No.)	Medicaid Cluster (93.775, 93.777, 93.778)
Type of Finding	Significant Deficiency, Non Compliance
Compliance Requirement(s)	Eligibility
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* There are specific requirements that must be followed to ensure that individuals meet the financial and categorical requirements for Medicaid. These include that the State or its designee shall: *B(1) Written Application* “Require a written application signed under penalty of perjury and include in each applicant’s case records facts to support the agency’s decision on the application (42 USC 1320b-7(d); 42 CFR sections 435.907 and 435.913).
Condition	For 16 out of 90 applicants selected for testing, the Division of Medicaid and Medical Assistance (DMMA) was unable to provide documentation at our original request to support that the recipient signed a written application for benefits under the penalty of perjury. The file did contain, social security number, income verification, citizenship or qualified alien status, and annual recertification documentation. Fourteen applications were provided 13 weeks after the original request, but prior to the completion of all fieldwork, leaving 2 applications not located. Benefits provided to the 2 recipients were $26,166 while the total benefits to the 90 applicants reviewed were $1,212,678. The total benefits paid during FY2013 amounted to $848,620,609.
Cause	The missing applications are due to personnel failure to upload the application into the Document Imaging System (DIS) and/or the misplacement of the original application in the paper file.
Effect	Households may receive government benefits without the legal security that individuals who make false statements will be persecuted to the full extent of the law. Federal monies may be utilized for recipients who did not qualify or continue to qualify for Medical assistance.

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.
Questioned Costs	There are questioned costs of $26,166 associated with the 2 missing applications.
Agency Contact Name	***Ray Fitzgerald***
Agency Contact Phone Number	***302-255-9645***
Corrective Action Plan	The Department will reinforce to DMMA and DSS staff that it is incumbent on staff to research ***all*** documentation sources at the time audit samples are provided. This will be reinforced by 6/30/14.
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 indicated in the finding response, The Division of Social Services was able to locate the documentation for 14 of the 16 recipients cited in this finding. It was also pointed out that there were several factors that severely hampered our staff's ability to provide the requested documentation to the auditors within normal time frames. • Implementation of the Affordable Care Act – significant central and field staff resources have had to be devoted to supporting this major initiative and increased client volume being referred for enrollment. • Implementation of the Eligibility Modernization Project – on 10/1/13 the new DSS eligibility system was activated. System implementation has been challenging causing work backlogs to the point that significant overtime has had to be expended to clear backlogs to the point some staff are working 7 days per week. • As a result, our efforts to locate these cases were severely hampered by these extraordinary circumstances. It was also pointed out that the case files did contain the "facts to support the agency's decision" regarding eligibility (42 CFR 435.914) and hence the questioned costs are an eligible and allowable cost under the Medicaid program. Additionally, Department (Divisional management) indicated it would reinforce to DMMA and DSS staff that it is incumbent on staff to research ***all*** documentation sources at the time audit samples are provided. This reinforcement happened during a management level meeting immediately following the audit exit conference of 3/13/14. Managers were tasked with meeting with their staff to ensure that all sources are checked when requests for documentation are made. This will be an ongoing message to staff.
Anticipated Completion Date (if not Fully corrected).	July 1, 2014

Agency	U.S. Department of Health and Human Services
Fiscal Year	2014
Reference Number	2013-022
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Child Support Enforcement (93.563)
Type of Finding	Material Weakness, Non Compliance
Compliance Requirement(s)	Reporting
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. Compliance Reporting The DCSE Program is required to submit the OCSE-396A, Quarterly Expenditures Report quarterly for each type of grant award received. In addition, the 'Instructions for Completion of Form OCSE-396A' state that there are two parts to this report: Part 1 – Quarterly Report of Expenditures and Estimates and Part 2 – Itemized Prior Quarter Adjustments.
Condition	KPMG reviewed all four Quarterly Expenditure Reports (OCSE-396A) for the State fiscal year ended June 30, 2013. The OCSE-396A for the quarters ended December 31, 2012, March 31, 2013, and June 30, 2013, contained the following errors: • Total Annual User (DRA) Fee revenue was calculated incorrectly by the amounts listed in the table below for the subsequent quarters through June 30, 2013. The amount reported on the OCSE-396A was understated by $57,204.

Quarter Ending	**Amount Reported per OCSE-396A**	**Actual Amount**	**(Understatement)**
31-Dec-13	$ 145,752	$ 151,652	$ (5,900)
31-Mar-13	37,449	73,469	(36,020)
30-Jun-13	19,746	35,030	(15,284)
Total	202,947	260,151	(57,204)

Cause	The Excel formula used to calculate the (Total) Annual User (DRA) Fee for the quarter ended September 30, 2012 failed to include a needed cell. The formula error did not cause errors in the September 30th report and was not detected in the management review of the reports. The same formula was used for the subsequent quarters; consequently, the error was repeated for subsequent quarters through June 30, 2013.
Effect	The DCSE Program reported incorrect amounts to the Federal Government.

Recommendation	We recommend that DCSE include verification of underlying calculations for the OCSE-396A report in their review procedures. In addition, DCSE should submit revised OCSE-396A reports for those quarters to correct the understatements.
Questioned Costs	There are no questioned costs as the Program underreported net expenditures by $57,204 as a result of these errors.
Agency Contact Name	Charles Hayward
Agency Contact Phone Number	302-395-6520
Corrective Action Plan	Going forward, management will review the formulas each quarter and confirm the auto sum totals to ensure all amounts are being properly captured in the total calculation of revenues and expenditures.
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	Under the cause for this finding we would like to clarify (see bold/underline) that the Excel formula used to calculate the (Total) Annual User (DRA) Fee for the quarter ended September 30, 2012 failed to include a needed cell. The formula error did not cause errors in the September 30th report **as there were yet no dollar costs,** but the cell error was not detected in the management review of the reports. The same formula was used for the subsequent quarters **and the cell in question did have costs entered.** Consequently, the error was repeated for subsequent quarters through June 30, 2013. As indicated in the response to this finding, management is reviewing the formulas each quarter and confirms the auto sum totals to ensure all amounts are being properly captured in the total calculation of revenues and expenditures. This began with the IV-D report submitted for the quarter ending 9/30/13.
Anticipated Completion Date (if not Fully corrected).	

Agency	United States Department of Health and Human Services
Fiscal Year	2014
Reference Number	2013-023
Related Prior Year Findings	N/A
Related 2014 Findings	2014-031
Program Name (CFDA No.)	Child Support Enforcement (93.563)
Type of Finding	Material Weakness
Compliance Requirement(s)	Allowable Costs (Effort Reporting)
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if The quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

	Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including: • The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results. • The entire time period being sampled. • The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)
Condition	DCSE employees complete Time and Effort Certifications to document the time charged by employees to various State and Federal initiatives. They are prepared by the employee and reviewed by a supervisor. Payroll expenditure testing for allowable costs revealed that six out of twelve employees sampled submitted Time and Effort Certifications which were not properly approved and reviewed by a supervisor for multiple pay cycles. This represented twenty-four out of forty payroll transactions examined. The six employees charged $58,160 to the program out of our sample of $98,289. Total payroll expended for the program was $5,263,450.
Cause	The exceptions occurred because these employees are part of the Delaware Department of Justice and the Division of Child Support Enforcement does not have procedures established that require supervisor review and approval of time charged to the federal grants from employees outside of its department.
Effect	Employees are recording unapproved payroll charges to the federal grant.
Recommendation	We recommend that DCSE enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort Certification. As the exceptions in finding were for employees who work for the DE Department of Justice (DOJ), we recommend that DCSE communicate to DOJ the need for supervisors to review and sign their employee time and effort certifications.
Questioned Costs	There are no questioned costs related to this control finding.
Agency Contact Name	***Charles Hayward***
Agency Contact Phone Number	***302-395-6520***
Corrective Action Plan	DCSE will communicate to the Delaware Department of Justice that time and effort certifications must be signed by the employee's supervisor. The requirement will also be highlighted in the MOU with the Department of Justice.
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 indicated in the corrective action plan, DCSE advised the Delaware Department of Justice (DOJ) that time and effort certifications must be signed by the employee's supervisor. This occurred on 3/21/14. Also – the corrective action stated that this requirement will be highlighted in the MOU between DCSE and DOJ. The MOU is still under review at the DOJ and DCSE is awaiting their feedback.

Anticipated Completion Date (if not Fully corrected).	8/15/2014

Agency	U.S. Department of Agriculture
Fiscal Year	2014
Reference Number	2013-024
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) (10.557)
Type of Finding	Material Weakness
Compliance Requirement(s)	Cash Management
Criteria	The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.
Condition	The Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) program utilizes a system query report, to download pending Accounts Receivable information from the State's general ledger, First State Financials (FSF), into a spreadsheet for the determination of the federal cash draws to be requested for the program. There is a lack of segregation of duties within the program's federal draw down process, as the same WIC staff is responsible for executing the query, importing the query results into the spreadsheet, calculating the draw amounts, and performing the cash draw downs. For 7 out of 18 drawdowns tested, supervisory review was not completed prior to submission of request for payment. The 18 transactions sampled amounted to $3,687,601. The 7 exceptions amounted to $1,576,981 out of a total Federal cash drawdown population of $16,971,257.
Cause	The program has designed the drawdown to be performed by the Fiscal Management Analyst III and reviewed by the Program Director. The Fiscal Management Analyst III responsible for preparing the drawdowns went on long term medical leave effective March 7, 2013 prior to his retirement on September 1, 2013. During this period, and while the Department is in the process of hiring his replacement, WIC's Program Director assumed this responsibility for both preparation and review.
Effect	Without a management review control in place, the WIC program may not detect errors or non compliance with the CMIA Agreement or the terms of the grant agreements.
Recommendation	We recommend that WIC and DPH develop some program cross training to allow for proper segregation of duties when personnel turn-over occurs.
Questioned Costs	No questioned costs, this is a control finding only.
Agency Contact Name	***Deborah Fisher***
Agency Contact Phone Number	***302-744-4742***
Corrective Action Plan	In February 2013 (prior to the FY 2012 audit exit conference of March 29, 2013) DPH fully implemented enhancements to the management review procedure as a part of the control process. The cash management policy for WIC includes that in the event of staff absences, the central DPH fiscal office will be included in the draw review and approval process.

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 February 2013 (prior to the FY 2012 audit exit conference of March 29, 2013) DPH fully implemented enhancements to the management review procedure as a part of the control process. The cash management policy for WIC includes that in the event of staff absences, the central DPH fiscal office will be included in the draw review and approval process.
Anticipated Completion Date (if not Fully corrected).	

Agency	U.S. Department of Agriculture
Fiscal Year	2014
Reference Number	2013-025
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) (10.557)
Type of Finding	Material Weakness
Compliance Requirement(s)	Food Instrument and Cash-Value Voucher Disposition
Criteria	The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.
Condition	There was a lack of segregation of duties within the program's monthly reconciliation of the food vouchers redeemed to the bank account. The same WIC staff prepared and reviewed the report for 1 out of 2 reconciliations sampled. The vouchers redeemed on the 2 monthly reconciliations sampled summed to $1,245,159, and the vouchers redeemed on the monthly reconciliation with the exception totaled $629,525.
Cause	The program has designed the reconciliation to be performed by the Fiscal Management Analyst III and reviewed by the Program Director. The Fiscal Management Analyst III responsible for preparing the monthly reconciliation went on long term medical leave effective March 7, 2013 prior to his retirement on September 1, 2013. During this period, and while the Department is in the process of hiring his replacement, WIC's Program Director assumed this responsibility for both preparation and review.
Effect	Without a separate management review control in place, WIC may not be able to detect errors in the reconciliation process.
Recommendation	We recommend that the WIC program and DPH enhance its monthly food reconciliation procedures by designating an alternate preparer or reviewer to compensate for the retirement of the Fiscal Management Analyst III until a replacement is hired. This will ensure there is an adequate level of supervisory review and ensuring proper segregation of duties between the preparer and the reviewer.
Questioned Costs	There are no questioned costs, only a control finding.
Agency Contact Name	***Deborah Fisher***
Agency Contact Phone Number	***302-744-4742***
Corrective Action Plan	A Fiscal Management Analyst was hired effective 12/16/13 who is responsible for fiscal management and reporting for the WIC program. Additionally, a staff member in Support Services (DPH central office) has been identified to review and approve the monthly food reconciliation report for the WIC program in the event of a staff absence or shortage to ensure a separation of duties.
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 response to this finding, a Fiscal Management Analyst was hired effective 12/16/13 who is responsible for fiscal management and reporting for the WIC program. Additionally, a staff member in Support Services (DPH central office) was identified to review and approve the monthly food reconciliation report for the WIC program in the event of a staff absence or shortage to ensure a separation of duties.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2014

Agency	U.S. Department of Agriculture
Fiscal Year	2014
Reference Number	2013-026
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) (10.557)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Compliance Investigations of High-Risk Vendors
Criteria	The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.
Condition	The Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) program performs investigations of at least 5% of the ninety-one vendors they consider to be high risk. Investigators conduct this investigation by ascertaining that these vendors sell products that are required by the program and are reasonably priced. During this investigation, Investigators complete the "Compliance Buys" report to document the procedures performed and the associated results. At the end of the investigation, the Investigators are required to sign this report. We sampled 5 of the 10 investigations performed and found one where the investigator failed to sign the "Compliance Buys" report. The program personnel reviewing the reports did not detect this error.
Cause	The Management Analyst III, who is in charge of overseeing the Investigators and monitoring the visits performed, failed to review all the completed "Compliance Buys" reports submitted by the Investigators.
Effect	Without a management review completed, WIC may not detect or deter non-compliance, and WIC may continuously allow vendors to benefit from the program even though they are no longer in compliance with the federal requirements.
Recommendation	We recommend that WIC and the Division Public Health enhance its review process over the completion of the Compliance Buys report. WIC program personnel should ensure that the reports are completed properly and signed by the investigator at the conclusion of the each visit.
Questioned Costs	There are no questioned costs as this exception is only a control observation.
Agency Contact Name	***Deborah Fisher***
Agency Contact Phone Number	***302-744-4742***
Corrective Action Plan	The WIC vendor manager has instructed the investigator and reinforced that all compliance buy reports must be signed by the investigator prior to submission to the manager. All vendor compliance buy reports will be reviewed and approved by WIC vendor staff to ensure that the documentation is signed and complete. Unsigned compliance buy reports will be returned to the investigator for signature.
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 indicated in the response to this finding, the WIC vendor manager has instructed the investigator and reinforced that all compliance buy reports must be signed by the investigator prior to submission to the manager. All vendor compliance buy reports will be reviewed and approved by WIC vendor staff to ensure that the documentation is signed and complete. Unsigned compliance buy reports will be returned to the investigator for signature.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2014

Agency	U.S. Department of Agriculture
Fiscal Year	2014
Reference Number	2013-027
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) (10.557)
Type of Finding	Material Weakness
Compliance Requirement(s)	Reporting
Criteria	The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.
Condition	There is a lack of segregation of duties within the program's preparation of the monthly financial reports (Form FNS-798). The same WIC personnel is responsible for preparing and reviewing the report for 1 out of 2 monthly reports sampled. The FNS-798 report for the month of June 2013 was prepared, reviewed, and certified by the same Program Manager. Total federal outlay reported on the June 2013 report was $854,560 while the total federal outlay on the 2 reports tested was $1,726,053. Total expenditures reported for the 12 months were $15,114,720.
Cause	The Fiscal Management Analyst III who is responsible in preparing the monthly financial report went on long term medical leave effective March 7, 2013 prior to his eventual retirement on September 1, 2013. During this period, and while the Department is in the process of hiring his replacement, WIC's Program Director assumed the responsibility for both preparation and review of the reports.
Effect	Without a management review control in place, WIC may not detect or deter non-compliance, and WIC may not be able to detect all un-reconciled items in the financial report prior to submission to USDA, the Federal funding Agency.
Recommendation	We recommend that WIC and DPH develop some program cross training to allow for proper segregation of duties when personnel turn-over occurs.
Questioned Costs	No question costs were identified, the reports were in agreement to the general ledger.
Agency Contact Name	***Deborah Fisher***
Agency Contact Phone Number	***302-744-4742***
Corrective Action Plan	A Fiscal Management Analyst was hired effective 12/16/13 who is responsible for fiscal management and reporting for the WIC program. Additionally, a staff member in Support Services (DPH central office) has been identified to review and approve the monthly 798 report for the WIC program in the event of a staff absence or shortage to ensure a separation of duties.
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 indicated in the corrective action plan, a Fiscal Management Analyst was hired effective 12/16/13 who is responsible for fiscal management and reporting for the WIC program. Additionally, a staff member in Support Services (DPH central office) was identified to review and approve the monthly 798 report for the WIC program in the event of a staff absence or shortage to ensure a separation of duties.
Anticipated Completion Date (if not Fully corrected).	

Agency	U.S. Department of Agriculture
Fiscal Year	2014
Reference Number	2013-028
Related Prior Year Findings	N/A
Related 2014 Findings	2014-037
Program Name (CFDA No.)	Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) (10.557)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Reporting
Criteria	The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. When using a service provider for critical systems the COSO requirements regarding review and monitoring should be incorporated into an organization's internal controls. Part 6 of OMB's Compliance Supplements identifies the following elements of monitoring: **Monitoring** is a process that assesses the quality of internal control performance over time. • Follow up on irregularities and deficiencies to determine the cause. • Internal quality control reviews performed. • Management meets with program monitors, auditors, and reviewers to evaluate the condition of the program and controls.
Condition	Effective April 2013, the Special Supplemental Nutrition Assistance Program for Women, Infants, and Children (WIC) Program replaced its old data system used for processing WIC information with a new system called WIC on the Web (WoW) which is hosted by a third party service provider. The WoW System is used to track participant eligibility as well as information on vouchers issued, redeemed, cancelled, and reissued. The WIC program did not obtain or review a SOC I report from the third party provider. Additionally, upon inquiry, it was revealed that the third party service provider does not have a SOC I report for the period needed.
Cause	The exception occurred because DHSS does not currently have a formal policy to obtain and review SOC I reports over service providers integral to their systems.
Effect	The IT general control weaknesses could result in inaccurate processing of data and unauthorized access to systems.

Recommendation	DHSS and agencies supporting the systems utilized for WIC should implement adequate IT general controls to address the system weaknesses identified. Management should implement controls to: **1)** Obtain and review SOC I reports of service providers integral to the system for exceptions, weaknesses and user considerations. **2)** Work with DTI in the implementation of a formal policy to complete a review over system security.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	***Joanne White, WIC Director***
Agency Contact Phone Number	***302-741-2900***
Corrective Action Plan	It should be noted that this data system (WOW) is hosted and managed by the State of Maryland Department of Health and Mental Hygiene, WIC program. The State of Delaware is under contract with the State of Maryland (DPH/DHSS MOA 12-197) for the implementation and operation of the Delaware WIC on the Web (WOW) system. Delaware WIC does recognize that even though the term SOC1 is not utilized in the current Maryland MOU, the items that comprise it, such as internal controls, monthly report, etc. are listed as specific in items in the DPH MOU No12-197 section G. G21 specifically states : “Submit a monthly status report that describes the operational capacities and projected limitations or modification to be made to the system. This summary shall include the potential need for software or hardware upgrades or additions to accommodate increased demands. The report shall also include updates on system modifications, results of security monitoring, system performance indicators, system issue and other activities. Therefore a Revised MOU should not be required, instead a procedure to ensure Delaware is receiving all of the contracted items needs to be put in place. RESOLUTION: Delaware is meeting with Maryland WIC and their contractor on March 11, 2014 to address this issue. At that time a process will be written with a schedule for report item delivery and individual contact information to ensure that items listed in the MOU are obtained in a timely manner. Delaware will also proceed with the annual data audit for the 2013 timeframe if it is found that it has not yet been conducted for the period.
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	3Sigma received a proposal for an SOC1 Audit from A-lign, a CPA firm that performs SSAE and SOC1 audits. The audit process has begun, and the final report is to be delivered to 3Sigma on 9/26. MD WIC will provide the document to Delaware WIC once completed.
Anticipated Completion Date (if not Fully corrected).	Early- to mid-October 2014

Agency	Centers for Disease Control and Prevention
Fiscal Year	2014
Reference Number	2013-029
Related Prior Year Findings	N/A
Related 2014 Findings	2014-034
Program Name (CFDA No.)	Immunization Cluster (93.268 and S-93.712)
Type of Finding	Material Weakness
Compliance Requirement(s)	Allowable Costs (Effort Reporting)
Criteria	The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The COSO framework for Internal control consists of five interrelated components. These are derived from the way management runs a business, and are integrated with the management process. Two of the control components are: • Control Activities—Control policies and procedures must be established and executed to help ensure that the actions identified by management as necessary to address risks to achievement of the entity's objectives are effectively carried out. • Monitoring—The entire process must be monitored, and modifications made as necessary. In this way, the system can react dynamically, changing as conditions warrant. Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if

the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)

Condition

Four out of twelve employees selected for testing submitted signed Time and Effort Certifications that were not approved and reviewed by a supervisor for multiple pay cycles, as listed below. The four employees charged $32,230 to the program out of our sample of $57,094. Total payroll expended by the program was $1,010,639. The distribution of the identified exceptions is reflected in the table below.

Exceptions* Quarter End				
	9/30/2012	12/31/2012	3/31/2013	6/30/2013
Employee #1	Yes	Yes	Yes	Yes
Employee #2	Yes	**	**	**
Employee #3	Yes	Yes	Yes	**
Employee #3	**	Yes	**	**

* *Submitted timesheets were not reviewed and approved by a supervisor*

** *The employee charged time to the federal grant during this quarter but it was not included in the sample.*

Cause

The exceptions occurred because the Division of Public Health does not have clearly communicated procedures that require supervisor review and approval of time charged to the Federal grants.

Effect

Employees may be recording the incorrect payroll charges to the federal grant without supervisory review.

Recommendation

We recommend that DPH enhance controls by ensuring there is documentation of an adequate level of supervisory review for Time and Effort reports as well as enhancing its policies and procedures in preparation of the time and effort certification to ascertain compliance with the federal requirements.

Questioned Costs

There are no questioned costs associated with this control finding as payroll was documented in accordance with A-87 despite the lack of a supervisor’s approval.

Agency Contact Name	***Dr. Martin Luta***
Agency Contact Phone Number	***302-744-1050***
Corrective Action Plan	A departmental policy on time and effort reporting is in the process of being formulated. This policy will be departmental in scope and once complete, it will be issued and disseminated departmentally. It will include the requirement, basis and importance of effort reporting, frequency and, where needed, to align/recode payroll charges to reflect effort as a required and ongoing process. It will also include the appropriate standards for monitoring/review of employee time/effort certifications by supervisors. Subsequently, training will be provided to departmental staffs completing effort reports as well as managers who supervise those staff.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As an update to the corrective action: • A departmental policy on time and effort reporting has been formulated. DHSS brought on a consultant to review the policy draft and enhance its content prior to its being disseminated departmentally. As noted in our finding response, this policy is departmental in scope and application. It includes the requirement, basis and importance of effort reporting, frequency and need to align/recode payroll charges to reflect effort as a required and ongoing process. The policy is presently going through the department policy approval process. It is anticipated that the policy will be issued in August 2014. • The consultant has designed a training that will be provided to departmental staffs who complete effort reports as well as managers who supervise those staff. Training sessions are scheduled for 7/14 and 7/15/14. .
Anticipated Completion Date (if not Fully corrected).	Training: July 2014 Policy: August 2014

Agency	U.S. Department of Health and Human Services
Fiscal Year	2014
Reference Number	2013-030
Related Prior Year Findings	N/A
Related 2014 Findings	2014-032
Program Name (CFDA No.)	Public Health and Emergency Preparedness (93.069)
Type of Finding	Material Weakness, Non Compliance
Compliance Requirement(s)	Allowable Costs (Effort Reporting)
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Condition	For twelve out of sixty-five payroll transactions sampled, either (i) the employee did not prepare Time and Effort certifications in a timely manner; or (ii) the Program was charged more than the employee certified in their time and effort certification and/or time distribution; or (iii) the Time and Effort certification was not prepared in accordance with A-87. The following exceptions were identified: • Twelve (12) out of sixty-five payroll transactions tested sampled did not have the time and effort certification for the quarters or months requested. The time and effort certifications requested for the fiscal year ended June 30, 2013 were not completed until January 2014, when requested for audit. The amount charged to the grant was $16,592. • Three (3) out of 65 payroll charges tested charged the program more than the employee certified in their time and effort certification and/or time study report. The total charged to the grant was $152. • Eleven (11) out of 65 payroll charges tested show employees who work on multiple grant programs; however, effort reports were not completed at least on a monthly basis. The total charged to the grant was $16,139. The amount charged to the program for these twelve exceptions payroll transactions was $16,592 out of our sample of $124,487. Total payroll expended for the program was $1,234,026.
Cause	The exceptions occurred because the Time and Effort certification of the Laboratory Section employees and Information Resource Management (IRM) section employees are not included in the review procedures being performed by the PHEP's Administrative Specialist. This individual is responsible for matching all the certifications received to an employee list containing all current employees in order to ascertain completeness and timely preparation of the time and effort certifications. Additionally, the Program's effort reporting policy is not appropriate for employees who work on multiple grant programs as A-87 requires those certifications to be done at least monthly and not quarterly.
Effect	The Program is charging payroll incorrectly to the federal grant.
Recommendation	We recommend that DPH enhance its policies and procedures in preparation of the time and effort certification to ensure compliance with the federal requirements. We recommend that DHSS establish policies and procedures that comply with OMB Circular A-87 and require the review and monitoring of both work and time and effort certifications submitted by employees from other DHSS Divisions. The effort reporting requirements should be communicated frequently to all employees and embedded in the training to communicate to all employees the policies, rules, and regulations related to effort reporting.
Questioned Costs	Questioned costs related to unapproved, incorrect or inappropriate time and effort certifications in the sample are $16,592.
Agency Contact Name	***Kevin F. Kelley, Sr. DMS Director***
Agency Contact Phone Number	***(302) 255-9088***
Corrective Action Plan	A departmental policy on time and effort reporting is in the process of being formulated. This policy will be departmental in scope and once complete, it will be issued and disseminated departmentally. It will include the requirement, basis and importance of effort reporting, frequency and, where needed, to align/recode payroll charges to reflect effort as a

	required and ongoing process. It will also include the appropriate standards for monitoring/review of employee time/effort certifications by supervisors. Subsequently, training will be provided to departmental staffs completing effort reports as well as managers who supervise those staff. Additionally, EMSPS put a tracking system into place to ensure all Time and Effort reports are received from employees charged to the grant in a timely manner. This was corrected as of May 2013.
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 the response regarding the exceptions noted in the Condition of this finding, we provided the following observations and response. • Twelve (12) out of sixty-five payroll transactions tested sampled did not have the time and effort certification for the quarters or months requested. The time and effort certifications requested for the fiscal year ended June 30, 2013 were not completed until January 2014, when requested for audit. The amount charged to the grant was $16,592. **One of the 12 exceptions was a DPH employee who unfortunately did not certify/complete an effort report timely which comprised $453.72 of the questioned costs. This employee performs biological/bioterrorism and chemical/chemical terrorism testing which, although the effort report was not timely, is an allowable cost under the PHEP grant. The 11 other individuals were IRM staff and we would like to point out that in this audit period completed daily effort reporting logs in an automated time tracking system. They reported their time by minutes in a day worked on a specific grant and/or program which was subsequently allocated based on time reported by pay cycle. If an initial payroll charge for a pay cycle did not reflect the time recorded/ reported, (A) an adjustment was calculated via a reconciliation process and (B) the charges corrected via Payroll Funding Adjustments (PFA) to reflect the work and time/effort reported. For these staff the resulting charges comprise $16,138.88 of the questioned costs and are inclusive of PFA adjustments processed to correct the charges to reflect the daily time recorded in the system devoted to supporting this grant program.** • Three (3) out of 65 payroll charges tested charged the program more than the employee certified in their time and effort certification and/or time study report. The total charged to the grant was $152. **This overcharge will be recoded off of the grant.** • Eleven (11) out of 65 payroll charges tested show employees who work on multiple grant programs; however, effort reports were not completed at least on a monthly basis. The total charged to the grant was $16,139. **As mentioned above, the employees recorded their time and work activities on a daily basis into a time study system upon which the final adjusted payroll charges to the multiple activities (including the PHEP) were based. The costs are allowable under the PHEP program and were based upon actual time devoted to supporting the program.**

	Additionally, as an update: • A departmental policy on time and effort reporting has been formulated. DHSS brought on a consultant to review the policy draft and enhance its content prior to its being disseminated departmentally. As noted in our finding response, this policy is departmental in scope and application. It includes the requirement, basis and importance of effort reporting, frequency and need to align/recode payroll charges to reflect effort as a required and ongoing process. The policy is presently going through the department policy approval process. It is anticipated that the policy will be issued in September 2014. • The consultant has designed a training that will be provided to departmental staffs who complete effort reports as well as managers who supervise those staff. Training sessions are scheduled for 7/14 and 7/15/14. • As noted in the finding response, EMSPS of the Division of Public Health put a tracking system into place to ensure all Time and Effort reports are received from employees charged to the grant in a timely manner. This was corrected as of May 2013.
Anticipated Completion Date (if not Fully corrected).	Training: July 2014 Policy: March 2015 Recode of $152 September 2014

Agency	U.S. Department of Labor
Fiscal Year	2014
Reference Number	2013-031
Related Prior Year Findings	12-32
Related 2014 Findings	2014-043
Program Name (CFDA No.)	Workforce Investment Act (17.258, 17.259, 17.278, 17.260)
Type of Finding	Material Weakness, Non Compliance
Compliance Requirement(s)	Eligibility
Criteria	**1. Eligibility for Individuals** a. *All Programs* *Selective Service* – No participant may be in violation of section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under that Act (29 USC 2939(h)). b. *All Subtitle B Statewide and Local Programs* 1) An adult must be 18 years of age or older. 2) A dislocated worker means an individual who meets the definition in 29 USC 2801(9). 3) A dislocated homemaker means an individual who meets the definition in 29 USC 2801(10). 4) Before receiving training services, an adult or dislocated worker must have received at least one intensive service, been determined to be unable to obtain or retain employment through intensive services, and met all of the following requirements (20 CFR sections 663.240 and 663.310): a. Had an interview, evaluation, or assessment and determined to be in need of training services and have the skills and qualifications to successfully complete the selected training program. b. Selected a training service linked to the employment opportunities. c. Was unable to obtain grant assistance from other sources, including other Federal programs, to pay the costs of the training. c. *Subtitle B Youth Activities* A person is eligible to receive services under Youth Activities if they are between the ages of 14 and 21 at the time of enrollment (20 CFR section 664.200) and demonstrate at least one of the following barriers to employment: deficient in basic literacy skills; a school dropout; homeless; a runaway; a foster child; pregnant or parenting; offender; or an individual who requires additional assistance to complete an educational program, or to secure and hold employment (20 CFR sections 664.200, .205, and .210). See III.G.3.d.(2), "Matching, Level of Effort, Earmarking – Earmarking," for the requirement that at least 95

	percent of eligible youth participants be disadvantaged low-income youth as defined in 29 USC 2801(25). The Program's Policy is that all Individual Service Strategy (ISS) forms must be reviewed by management as evidence by a signature on the face of the document. Per the Delaware Work Investment Board (DWIB) policies and procedures, clients receiving benefits must be residents of Delaware.
Condition	The case files reviewed for the 2013 audit had the following exceptions: • For 6 of the 65 ISS's reviewed, although the clients were determined to be eligible, there was no evidence of proper review by management. The amount of benefits extended to these clients in fiscal year 2013 was $8,165 while total benefits extended to the 65 clients sampled in our population were $103,527. Total benefits expended for WIA for the year was $3,309,258. • For 1 of the 65 cases reviewed, although the file was reviewed by management, the client was incorrectly determined eligible as the client was a resident of Maryland.
Cause	The Division implemented new policies and procedures pertaining to management review of the ISS documents in the previous fiscal year. However, some counselors were utilizing outdated templates and had not implemented the changes during the current fiscal year. Additionally, WIA staff were using checklists to determine eligibility that did not match the DWIB policies and procedures manual regarding state of residence rules.
Effect	Without proper supervisor review and checklists that agree to policies and procedures, claimants who were not eligible under WIA criteria may inappropriately receive benefits from the Program.
Recommendation	The WIA Program should continue to reinforce policies and procedures relating to management's review of ISS's, including the requirement of management's signature on the face of the ISS. WIA should also ensure that policies and procedures match the checklists utilized by the staff for eligibility determination.
Questioned Costs	There are no questioned costs as each of the exceptions missing evidence of management review were correctly determined to be eligible for WIA services. In addition, there were no expenditures for the client that was incorrectly determined to be eligible for WIA services.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	On the face of the ISS there is a line for the case manager to initial the ISS prior to submitting the document to the Supervisor. The initials verify the case manager has completed the necessary portions of the ISS and it is ready for the supervisor's review. Effective March 13, 2014 program policy will be updated to require that the client and case manager signatures be obtained prior to the document being forwarded to the supervisor for signature. The revision ensures necessary signatures are being obtained in a sequential flow and it also eliminates an unnecessary trip to the office for the client. Residency is a DWIB definition. The definition for Residency on Page 5 for Youth stipulates the exception. Every so often DOL/DET will take an existing definition and apply it to another program if it is deemed appropriate. The definition was implemented for our WIA Adult and Dislocated Worker programs through a Q&A format that is used for

	answering questions, or clarifying policies/procedures/definitions. If this action plan is not acceptable then DOL/DET will issue policy for WIA Adult and Dislocated Worker programs related to Residency.
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	New process has been put into place.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2014

Agency	U.S. Department of Labor
Fiscal Year	2014
Reference Number	2013-032
Related Prior Year Findings	12-33
Program Name (CFDA No.)	Workforce Investment Act (17.258, 17.259, 17.278, 17.260)
Type of Finding	Material Weakness, Material Noncompliance
Compliance Requirement(s)	Reporting
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* The Workforce Investment Act (WIA) program is required to report quarterly in 9130 Federal Financial Reports the expenditures incurred by the program, which should agree with the accounting records of the State.
Condition	Supporting documentation for the Federal Share of Expenditures of the ETA 9130 Federal Financial Reports was not maintained. Program staff pulls First State Financial (FSF) queries and then make manual adjustments to calculate the accrual basis expenditures; however, the details of those adjustments are not kept. All reports for the quarters ended December 31, 2012 and June 30, 2013 were reviewed, totaling 45 reports.
Cause	The WIA Program does not have policies and procedures in place to document the completeness and accuracy of the train of expenditures data from FSF for the accrual portion that is being reported in its 9130 reports.
Effect	Failure to properly reconcile the queries of expenditure accruals can lead to errors in federal reports and total expenditures not being properly reported.
Recommendation	The Program should consider reviewing the processes used to prepare reports by ensuring the original queries are saved and adding an additional reconciliation to ensure that the altered data reconciles to the general ledger in First State Financials (FSF).
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	DET did implement the recommendation from the FY12 audit and kept the original data downloaded directly from FSF as well as the file used to support the accrued expenditures. And both files were provided to the auditors on site as requested. We do not agree that this should be a finding. However, we would accept this as a recommendation to improve and refine our current process.

STATE OF DELAWARE

Summary Status of Prior Year Findings
June 30, 2014

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	Although procedures have been implemented by DET, we are still working toward improving the process to reduce the risk of error.
Anticipated Completion Date (if not Fully corrected).	June 30, 2015

Agency	U.S. Department of Labor
Fiscal Year	2014
Reference Number	2013-033
Related Prior Year Findings	12-34
Program Name (CFDA No.)	Workforce Investment Act (17.258, 17.259, 17.278, 17.260)
Type of Finding	Significant Deficiency, Non Compliance
Compliance Requirement(s)	Subrecipient Monitoring
Criteria	**Subrecipient Monitoring:** • *Determining Subrecipient Eligibility* – In addition to any programmatic eligibility criteria under E, "Eligibility for Subrecipients," for subawards made on or after October 1, 2010, determining whether an applicant for a non-ARRA subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 CFR section 25.110 and Appendix A to 2 CFR part 25). • *Central Contractor Registration (CCR)* – **For ARRA subawards**, **identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a DUNS number, and maintaining the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)). This requirement pertains to the ability to report pursuant to Section 1512 of ARRA and is not a pre-award eligibility requirement.** Note that subrecipients of non-ARRA funds are not required to register in CCR prior to or after award. • *Award Identification* – At the time of the subaward, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements. For ARRA subawards, identifying to the subrecipient the amount of ARRA funds provided by the subaward and advising the subrecipient of the requirement to identify ARRA funds in the Schedule of Expenditures of Federal Awards (SEFA) and the SF-SAC (see also N, Special Tests and Provisions in this Part). • *During-the-Award Monitoring* – Monitoring the subrecipients use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. • *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipients fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipients audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely

	and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions. • *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.
Condition	For one subrecipient out of three subrecipients tested, WIA (the Program) did not retain evidence that the subrecipient's DUNS number was received prior to the award being given. The DUNS number was reported on the FFATA report submitted in July 2012; however, no evidence verifying the accuracy or the timing of the receipt of the DUNS number could be provided. In addition, for the same subrecipient tested above, the Program did not request to see any prior A-133 Audit Reports before they were selected as subrecipients. The Program could not provide support that they had ensured the subrecipients had adequate processes and procedures in place to run proper programs for WIA services or that they had ensured there were no unresolved issues or findings in previous A-133 Audits that would affect the WIA Program. The total expenditures for this subrecipient during the fiscal year totaled $21,231. The amount passed through to subrecipients in fiscal year 2013 was $1,408,246 and no WIA subrecipients received ARRA funding during the fiscal year. WIA had a total of 10 subrecipients, of which two were new to the Program. The total expended in fiscal year 2013 for the Program was $5,949,789.
Cause	WIA implemented new subrecipient monitoring policies and procedures during the year but the policies and procedures did not encompass all compliance requirements.
Effect	The Program did not perform effective subrecipient monitoring. The 10 subrecipients utilized during the fiscal year could potentially not be meeting federal requirements.
Recommendation	The WIA Program should ensure that they have adequate subrecipient monitoring procedures in place and are following them for all subrecipients monitored during the year. The Program should also ensure that when selecting subrecipients, they review support that the subrecipients are adequate to receive federal funding.
Questioned Costs	There are no questioned costs.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	In response to a recommendation from FY12, DET did revise the RFP, starting with PY13, to include a request for the DUNS number and added a statement in Appendix A to ensure that when selecting subrecipients, they review support that the subrecipients are adequate to receive federal funding.
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	New process has been put into place.

Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2014

<table>
<tr><td><i>Agency</i></td><td>U.S. Department of Labor</td></tr>
<tr><td><i>Fiscal Year</i></td><td>2014</td></tr>
<tr><td><i>Reference Number</i></td><td>2013-034</td></tr>
<tr><td><i>Related Prior Year Findings</i></td><td>N/A</td></tr>
<tr><td><i>Program Name (CFDA No.)</i></td><td>Workforce Investment Act (17.258, 17.259, 17.278, 17.260)</td></tr>
<tr><td><i>Type of Finding</i></td><td>Significant Deficiency, Non Compliance</td></tr>
<tr><td><i>Compliance Requirement(s)</i></td><td>Reporting - FFATA</td></tr>
<tr><td><i>Criteria</i></td><td>Based on review of Part IV of the 2013 A-113 Compliance Supplement and 2 CFR part 170, Transparency Act implementation was phased in for contracts based on their total dollar value. Based on the Federal Acquisition Regulation (FAR) interim final rule, Transparency Act reporting is required for:
Starting March 1, 2011, any newly awarded subcontract of $25,000 or more must be reported if the value of the Federal prime contract award under which that subcontract was awarded was $25,000 or more.
<p>In addition, compliance testing of the Transparency Act reporting requirements shall include the Following key data elements about the first-tier subrecipients and subawards under grants and cooperative agreements:</p>
<table><tr><td>Subawardee DUNS #</td><td>The subawardee organization's 9 digit Data Universal Numbering System (DUNS) number</td></tr></table>
<p>The auditors must ensure that the key data elements were accurately reported and supported by the source documentation.</p></td></tr>
<tr><td><i>Condition</i></td><td>The program entered into contracts with their subrecipients at the beginning of July 2012 for State Fiscal Year Ended June 30, 2013 and submitted the required FFATA report under the Transparency Act. The report submitted in July 2012 encompassed all subrecipients that had signed contracts for the new State fiscal year and upon our review, we observed the following regarding the reporting process:
The FFATA report was authorized and reviewed; however, the WIA Program could not provide supporting documentation for the DUNS number of one subrecipient.
A subrecipient signed a contract in September 2012 for $25,261. However, no FFATA report was subsequently prepared and submitted for this subrecipient.</td></tr>
<tr><td><i>Cause</i></td><td>The WIA Program reporting cycle results in the July FFATA report capturing most new subrecipient contracts for the new state fiscal year. However, the omitted contract was not signed until September and therefore outside the normal cycle. No secondary report was submitted.
<p>With regards to the DUNS number issue, WIA Program personnel failed to retain appropriate documentation verifying the accuracy of the reported DUNS number.</p></td></tr>
</table>

Effect	The Program is not completely and accurately reporting expenditures to subrecipients to the Federal government or ensuring they are verifying key data elements such as the DUNs number.
Recommendation	The Program should consider reviewing the processes used to prepare reports to ensure that contracts signed during the fiscal year are appropriately reported. In addition, measures should be taken to ensure that appropriate documentation is retained to verify the accuracy of reported information.
Questioned Costs	There are no questioned costs as the $25,261 is supported by a signed contract. The subrecipient with the DUNS number that was not supported is only a reporting error.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	The DET agrees to review the FFATA reporting semi-annually to insure all contracts are included in the report. DET did revise the RFP, starting with PY13, to include a request for the DUNS number
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	New process in place.
Anticipated Completion Date (if not Fully corrected).	

Agency	U.S. Department of Labor
Fiscal Year	2014
Reference Number	2013-035
Related Prior Year Findings	12-35
Related 2014 Findings	2014-042
Program Name (CFDA No.)	Workforce Investment Act (17.258, 17.259, 17.278, 17.260)
Type of Finding	Material Weakness, Material Noncompliance
Compliance Requirement(s)	Allowable Costs (Effort Reporting)
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* Per Circular A-87, Item #8, Compensation for Personal Services, Section (3h) & (4e): (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: a. More than one Federal award, b. A Federal award and a non-Federal award, (5) Personnel activity reports or equivalent documentation must meet the following standards: a) They must reflect an after-the-fact distribution of the actual activity of each employee, b) They must account for the total activity for which each employee is compensated, c) They must be prepared at least monthly and must coincide with one or more pay periods, and d) They must be signed by the employee.

	(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.
Condition	The payroll funding reconciliations used to reconcile the State's payroll system (PHRST) and WIA's internal time software (Autotime) were performed for all four quarters during the fiscal year. However, as of October 2013, the calculated adjustments to record actual time spent working on the grant for these quarters had not been recorded in the State's accounting system, First State Financials (FSF). As a result of not recording payroll funding adjustments, 39 out of 40 payroll transactions tested were incorrect with the net effect of ($5,270). The total adjustment needed to reconcile all four quarters is ($3,444). In addition, one of our 40 samples was an employee charging time for the National Emergency Grant which was incorrectly coded to the WIA Program. The total salary charged by this employee to the Program was $1,108. The population of payroll transactions in fiscal year 2013 subject to testing was $1,530,926 while total expenditures for the program were $5,949,789.
Cause	The exceptions occurred because the WIA Program was in process of implementing new payroll policies and experience staff turnover during the fiscal year. The Schedule of Expenditures of Federal Awards (SEFA) related to two awards for National Emergency Grant (NEG) were incorrectly coded to CFDA 17.260 when they should have been coded to CFDA 17.277 effective July 1, 2011. Therefore, a total of $397,627 in expenditures were incorrectly classified to the WIA cluster.
Effect	The Program is not properly reporting payroll expenditures for the year ended June 30, 2013 since the PHRST data has not been updated for the adjustments needed during the year or for the correct time worked on the program's projects. The total amount of NEG expenditures incorrectly coded to the WIA grant in the SEFA was $397,627.
Recommendation	The WIA Program should record payroll funding adjustments timely. The Program should also consider alternatives to processing payroll funding adjustments at the employee level, such as recording aggregate journal entries to correct the allocation on a quarterly basis.
Questioned Costs	There are no questioned costs for the PFA error 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 that the payroll adjustment needs to be made timely. We are currently training a new individual to perform this duty.

STATE OF DELAWARE
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Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	
Anticipated Completion Date (if not Fully corrected).	Payroll adjustments will be completed August 15, 2014.

STATE OF DELAWARE

Summary Status of Prior Year Findings
June 30, 2014

Agency	U.S. Department of Labor
Fiscal Year	2014
Reference Number	2013-036
Related Prior Year Findings	12-33
Program Name (CFDA No.)	Workforce Investment Act (17.258, 17.259, 17.278, 17.260)
Type of Finding	Significant Deficiency, Non Compliance
Compliance Requirement(s)	Reporting
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* The Delaware Workforce Investment Act Program is required to file various reports related to its oversight and compliance over the federal funds it receives from the Department of Labor (DOL). • *ETA-9091, WIA Annual Report (OMB Number 1205-0420)* – Sanctions related to State performance or failure to submit these reports timely can result in a total grant reduction of not more than five percent as provided in WIA Section 136 (g)(1)(B). Reports must be complete, accurate, and prepared in accordance with the required accounting basis as well as trace to accounting records, supporting worksheets or other documentation that link reports to the data.
Condition	The 9091 WIA Annual Report was authorized and marked as reviewed; however, the reported 'Rapid Response' expenditures could not be agreed to FSF expenditure detail. Reported 'Rapid Response' expenditures totaled $155,289; however, FSF indicated a total of $133,108 in expenditures resulting in an over-statement of $22,181. The total expended in fiscal year 2013 for the program was $5,949,789.
Cause	The exception occurred because of staff turnover and an apparent mathematical error in the general ledger reconciliation that was not detected in the review process.
Effect	The Program is not properly reporting expenditures to the Federal government, which could result in adjustments to future grants received from the U.S. Department of Labor.
Recommendation	The Program should consider reviewing the process used to prepare the reports and adding a requirement to document the reconciliation to the general ledger for detailed review.
Questioned Costs	Although the underlying expenditures were not incurred, expenditures were over reported by $22,181.
Agency Contact Name	***Kris Brooks, DOL Controller***

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2014

Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	DET will implement a dual review of the 9091 WIA Annual Report. Unfortunately, an error occurred overstating the expenditures for the Rapid Response section of the report.
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	New process has been put into place.
Anticipated Completion Date (if not Fully corrected).	

Agency	Social Security Administration
Fiscal Year	2014
Reference Number	2013-037
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Disability Insurance/SSI Cluster (96.001)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Cash Management
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.
Condition	In 9 of the 10 drawdown's tested, there was no evidence of management review. Additionally, there is a lack of segregation of duties as the same Disability Determination Services (DDS) program staff is preparing the drawdown request and submitting the draw. Total drawdown's tested was $3,206,878 and total drawdown's per our population was $7,099,353.
Cause	The program did not have adequate procedures in place for management's review of the drawdown. As a result of prior year single audit findings at the Department of Labor, DDS implemented revised procedures to document review in May 2013. KPMG found that drawdowns after this date included evidence of review by management.
Effect	Without an independent management review control in place, DDS may request funds in a manner which is not in compliance with the CMIA, Subpart B, or the terms of the grant agreements.
Recommendation	We recommend that DDS continue to implement its revised federal draw down procedures to ensure there is an adequate level of supervisory review of the drawdowns prior to submission to the federal agencies and to ensure proper segregation of duties over the cash management function.
Questioned Costs	There are no questions costs as amounts agreed to underlying general ledger and were for actual expenditures.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	Effective May 6, 2013, DDS updated and implemented a new procedure to ensure the weekly federal drawdowns are independently reviewed prior to submission and to ensure proper segregation of duties. The submission report is reviewed by the Senior Accountant, initialed and dated prior to the drawdown of funds.
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	New process has been put into place.
Anticipated Completion Date (if not Fully corrected).	

Agency	U.S. Department of Labor
Fiscal Year	2014
Reference Number	2013-038
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Unemployment Insurance (17.225, S-17.225)
Type of Finding	Significant Deficiency, Non Compliance
Compliance Requirement(s)	Reporting
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* The Unemployment Insurance (UI) program is required to report quarterly in 9130 Federal Financial Reports the expenditures incurred by the program, which should agree with the accounting records of the State.
Condition	We reviewed the 29 submitted ETA 9130 Federal Financial Reports for December 31, 2012 and June 30, 2013 and although all 29 reports were marked as reviewed by the appropriate individuals, three reports did not agree to the underlying general ledger, resulting in a $50,000 understatement of expenditures. The program had $12,779,520 of FSF expenditures and $177,894,022 of Non-FSF expenditures, or expenditures that are not recorded in FSF and relate to benefit payments. Total expenditures were $190,673,542 during fiscal year 2013.
Cause	The review done by management is not detailed enough to detect reporting errors.
Effect	The Program is not properly reporting expenditures to the Federal government, which could result in adjustments to future grants received from the U.S. Department of Labor.
Recommendation	The Program should consider reviewing the process used to prepare the reports and adding a requirement to document the reconciliation to the general ledger so a detail review can be completed.
Questioned Costs	There are no questioned costs for the ETA 9130 Report as the errors resulted in understated expenditures of $50,000.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	Effective 10-28-2013 procedures were put into place for reviewing ETA 9130 reports. A Senior Accountant in the UI Fiscal Unit completes the reports as required. A Senior Accountant in the UI Fiscal Unit then prints the completed reports and attaches all back-up documentation and puts the documents into the ETA 9130 reports packet. A Senior

	Accountant in the UI Fiscal Unit then forwards all the reports and back-up documentation to the Fiscal Administrative Officer [FAO] who reviews the reports and back-up documentation for completion and accuracy. The FAO signs off on each report in the ETA 9130 reports packet and submits all the documentation to the Management Analyst in the UI Fiscal Unit. The Management Analyst reviews all the reports and back-up documentation in the ETA 9130 reports packet. Once this review is completed, the Management Analyst signs off on each report and the back-up documentation and then returns the ETA 9130 reports packet to the FAO. The FAO certifies the reports in the DOL Grantee System. The FAO prints the certification page including it with the back-up documentation for each of the reports in the ETA 9130 reports packet.
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	New process has been put into place.
Anticipated Completion Date (if not Fully corrected).	

Agency	U.S. Department of Labor
Fiscal Year	2014
Reference Number	2013-039
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Unemployment Insurance (17.225, S-17.225)
Type of Finding	Significant Deficiency, Non Compliance
Compliance Requirement(s)	Reporting
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* The Unemployment Insurance (UI) program is required to report quarterly in ETA 581 Contribution Operations Reports on the volume of SWA work, performance in determining the taxable status of employers, and other information pertinent to the overall effectiveness of the tax program, which should agree with the accounting records of the State.
Condition	The ETA 581 Contribution Operations Report for June 30, 2013, did not correctly calculate the receivables over 15 months, as required to be reported in Line 44. The receivables reported as $349,494 were overstated by $104,030. The error was identified by the management reviewer; however, the update was not made when the report was transmitted. The program had $12,779,520 of FSF expenditures and $177,894,022 of benefit payments, for total expenditures of $190,673,542 during fiscal year 2013.
Cause	While management did review the report and leave edits for the preparer, the staff did not update the report for the reviewer comments. The reviewer also should have looked at the report prior to submission to ensure all comments were corrected.
Effect	The Program is not properly reporting program data to the Federal government.
Recommendation	The Program should require the reviewer to re-review the final report after all comments are cleared.
Questioned Costs	There are no questioned costs for the ETA 581 Report as the mathematical errors resulted an overstatement of receivables.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***
Corrective Action Plan	A programming change was made to the Aging Receivables report to include the same time period as required by the U.S. DOL-ETA for the ETA 581 report. This programming change has eliminated the need to perform manual adjustments to the aging of receivables and will eliminate incorrect mathematical calculations.

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	New process has been put into place.
Anticipated Completion Date (if not Fully corrected).	

Agency	U.S. Department of Labor
Fiscal Year	2014
Reference Number	2013-040
Related Prior Year Findings	N/A
Related 2014 Findings	2014-044
Program Name (CFDA No.)	Unemployment Insurance (17.225, S-17.225)
Type of Finding	Significant Deficiency, Non Compliance
Compliance Requirement(s)	Reporting
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* The Unemployment Insurance Program is required to file various reports related to its oversight and compliance over the Federal funds it receives from the Department of Labor including: *ETA 227*, *Overpayment Detection and Recovery Activities (OMB No. 1205-0173)* – Quarterly report on results of SWA activities in principal detection areas of benefit payment control (ET Handbook 401). Reports must be complete, accurate, and prepared in accordance with the required accounting basis as well as trace to accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards.
Condition	Certain attributes/components of the ETA 227 Overpayment Detection/Recovery Reports for the quarters ended December 31, 2012 and June 30, 2013 could not be agreed to supporting documentation. The following errors occurred on the original ETA 227 reports submitted as of December 31, 2012 and are summarized in the table below: For Section A – *Overpayments Established: Causes*, the report submitted did not agree to system generated reporting schedules for UI High Dollar Fraud Overpayments (-$29,968 difference), UI High Dollar Non-Fraud Overpayments (-$45,579 difference) and UCFE/UCX High Dollar Fraud Overpayments ($4,950 difference).

For Section B – *Overpayments Established: Methods of Detection*, the report submitted did not agree to system generated reporting schedules for Non-Fraud Other ($912 difference) and Non-Fraud Non- Controllable Total (-$912 difference).

For Section C – *Recovery/Reconciliation*, the report submitted did not agree to system generated reporting schedules for UI Written Off (10,428 difference).

The following errors occurred on the original ETA 227 reports submitted as of June 30, 2013 and are summarized in the table below:

For Section B – *Overpayments Established: Methods of Detection*, the report submitted did not agree to system generated reporting schedules for Non-Fraud Wage/Benefit Crossmatch (-$1,370 difference), Non-Fraud National Directory of New Hires ($1,370 difference), and Non-Fraud Noncontrollable Total ($670 difference).

For Section C – *Recovery/Reconciliation*, the report submitted did not agree to system generated reporting schedules for Non-Fraud UCFE/UCX Cash ($1,157 difference), Non- Fraud UCFE/UCX Benefit Off-Set (-$2,196 difference), Non-Fraud EB Benefit Off-Set (-$2,196 difference), Non-Fraud UCFE/UCX State Income Tax Offset ($6,358 difference), Fraud UI Written-Off ($56,610 difference), Non-Fraud UI Written-off ($55,073 difference), and Non-Fraud UCFE/UCX Written-Off ($2,302 difference).

The following errors occurred on the original ETA 227 EUC 08 reports submitted as of June 30, 2013 and are summarized in the table below:

For Section C – *Recovery/Reconciliation*, the report submitted did not agree to system generated reporting schedules for Non-Fraud UI Recovered-Total (-$125,298 difference) and Fraud UI Recovered-Total ($551 difference).

12/31/2012 - ETA 227 Overpayment Detection/Recovery

Reg/EUC08/T EUC	**Section**	**Section**	**Amount per Transmitted Report**	**Amounts per System Support KPMG Verified**	**$ Difference**
Reg	A - UI	112	238,042.00	268,010.00	(29,968.00)
Reg	A - UCFE/UCX	112	-	4,950.00	(4,950.00)
Reg	A - UI	113	111,341.00	156,920.00	(45,579.00)
Reg	B - Non-Fraud	207	89,778.00	88,866.00	912.00
Reg	B - Non-Fraud	208	272,470.00	273,382.00	(912.00)
Reg	A - UI	309	50,746.00	40,318.00	10,428.00

6/30/2013 - ETA 227 Overpayment Detection/Recovery

Reg/EUC08/TEUC	Section	Section	Amount per Transmitted Report	Amounts per System Support KPMG Verified	$ Difference
Reg	B - Non-Fraud	208	409,004.00	408,334.00	670.00
Reg	B - Non-Fraud	202	194,866.00	196,236.00	(1,370.00)
Reg	B - Non-Fraud	210	107,899.00	106,529.00	1,370.00
Reg	C - UCFE/UCX	303	3,374.00	2,217.00	1,157.00
Reg	C - UCFE/UCX	304	3,531.00	673.00	2,858.00
Reg	C - EB	304	1,155.00	3,351.00	(2,196.00)
Reg	C - UCFE/UCX	305	7,268.00	910.00	6,358.00
Reg	C - UI Fraud	309	78,516.00	21,906.00	56,610.00
Reg	C - UI Non-Fraud	309	83,058.00	27,985.00	55,073.00
Reg	C - UCFE/UCX	309	2,302.00	-	2,302.00
EUC08	C - UI Non-Fraud	303	73,767.00	79,045.00	(5,278.00)
EUC08	C - UI Non-Fraud	304	39,544.00	156,734.00	(117,190.00)
EUC08	C - UI Non-Fraud	305	39,544.00	42,374.00	(2,830.00)
EUC08	C - UI Fraud	307	551.00	-	551.00

The program had $12,779,520 of FSF expenditures and $177,894,022 of benefit expenditures, for total expenditures of $190,673,542 during fiscal year 2013.

Cause	The person who is responsible for preparing the reports was unable to perform their duties and new personnel completed the reports. The errors were not detected by the reviewer.
Effect	The Program is not properly reporting detailed information regarding overpayments, which could result in adjustments to future grants received from the U.S. Department of Labor.
Recommendation	The Program should develop a more detailed review process before sign-off and submission of the reports, including agreement to supporting documentation.
Questioned Costs	There were no questioned costs as the reporting is information about the activities of the UC department, not the program related expenditures reimbursed by the grant.
Agency Contact Name	***Kris Brooks, DOL Controller***
Agency Contact Phone Number	***(302) 761-8024***

Corrective Action Plan	**12/31/2012 ETA 227 Report:** High Fraud/Non Fraud Dollar amounts: The procedure in place is: An Accountant in the BPC Unit prepares the report; the BPC Manager reviews the report for accuracy, the BPC Manager then forwards the report to the Management Analyst II for transmission of the data. On January 27, 2014 an additional procedure was implemented. Specifically, when the transmission of the report is completed the Management Analyst II sends the BPC Manager a copy of the transmitted report, so the BPC Manager or the Accountant can ensure the data that was prepared was transmitted properly. **NOTE:** A corrected report was transmitted to U.S. DOL-ETA on 10-24-2013. Lines 207 and 208: The titles on the ETA 227 report for this section were labeled incorrectly, although the totals for this section were correct-- $912.00 was put in an incorrect category. We are currently in the process of updating the report format so all the correct titles appear on each page of the report. Line 309: This particular cell had an incorrect formula and it was pulling the data from an incorrect spot. This has been corrected and the data was retransmitted to U.S. DOL-ETA on 10-24-2013. **6/30/2013 ETA 227 Report:** Currently, the BPC Unit is following the established procedures for the retrieving data for the ETA 227 report. The report is being worked on daily by the Accountant and reviewed by the BPC Manager and then reviewed again after transmission is complete to ensure accuracy. On 11-14-13 the BPC Manager contacted the IT unit and requested assistance in revising the collection of the data from the system. The changes include titles, categories and layout of the data collection to have our data collection mirror the ETA 227 report. The most identifiable issue with the collection of the data is detailing all the transactions that can occur during a quarter. Once we have this report in alignment with the ETA 227 report it will better enable us to control the report. **Note**: A corrected report was transmitted to the U.S. DOL-ETA for all categories on 10-24-13.
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 programming changes have been requested but were not completed as timely as we had expected. Due to workload issues, new procedures have not been properly implemented.
Anticipated Completion Date (if not Fully corrected).	June 30, 2015

Agency	U.S. Department of Transportation
Fiscal Year	2014
Reference Number	2013-041
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Federal Transit Cluster (20.500; 20.507; S-20.507)
Type of Finding	Material Weakness, Non Compliance
Compliance Requirement(s)	Reporting (1512 Reporting)
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* The Delaware OMB 1512 Reporting Instruction Manual states ―Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as ―instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity. A significant reporting error is defined as ―instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will my misled or confused by the recipient report in question. ―The Prime recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report. The Delaware OMB 1512 Reporting Instruction Manual states ―Data quality (i.e. accuracy, completeness and timely reporting of information) reviews required by the OMB June 22 Guidance are intended to avoid two key data problems – material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Subrecipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and subrecipients should establish internal controls to ensure completeness, accuracy, and timely reporting of all amounts funded by the Recovery Act. The Compliance Supplement also states that compliance testing of the ARRA reporting requirements shall include only the following key data elements of the 1512 reporting: Recipient Data Elements: Award Number, Award Amount, Total Federal Amount ARRA Funds Received/Invoiced, and Total Federal Amount of ARRA Expenditures.

STATE OF DELAWARE

Summary Status of Prior Year Findings
June 30, 2014

Condition	Based on our review, we found there was no evidence of independent preparation and review of the 1512 Report required to be submitted for the quarter ended March 31, 2013. The same individual creates and submits the reports with no subsequent independent review. This control weakness resulted in the following errors with our sample of one 1512 report: for the one active ARRA grant during the year, the vendor payment schedules per the report did not agree to FSF accounting system detail resulting in an understatement of $59,475 out of $16,108,944 in expenditure per the report.
Cause	The exceptions occurred because there is no segregation of duties between the person creating and submitting the reports and the person reviewing the reports. As such, errors were not discovered.
Effect	The Program is not properly reporting expenditures to the Federal government, which could result in adjustments to future grants received from the U.S. Department of Transportation.
Recommendation	The Program should assign a Program staff person to review the data entered prior to submission. Additionally, KPMG suggests a reconciliation from FSF to the 1512 Reports that ensures the 1512 Reports' accuracy as well as agreement to FSF.
Questioned Costs	There are no questioned costs for the 1512 reports as the errors resulted in understated expenditures of $59,475 for grant award DE-96-X001.
Agency Contact Name	***James Hoagland***
Agency Contact Phone Number	***302-760-2036***
Corrective Action Plan	*Current internal procedures have since been refined, and will be reviewed again.* The Controller recommends the Contract Administration add a reviewer to their process to ensure that another staff member is added to the process to validate the data provided by the contractors is accurate. Finance will also validate the financial data provided prior to submission. **Update 8/1/14 – There is no more formal ARRA reporting required. Informally, the department is still incurring costs on one ARRA project that contains both FHWA and FTA funds. This is the Dover Transit Center involving the construction of restroom facilities. The completion date is expected to be mid-September 2014 with final invoices soon thereafter.**
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	Unable to correct as far as the reporting requirement is concerned due to the inability to access the report since it is no longer available. Project completion is expected in September 2014.
Anticipated Completion Date (if not Fully corrected).	

Agency	U.S. Department of Transportation
Fiscal Year	2014
Reference Number	2013-042
Related Prior Year Findings	12-37
Program Name (CFDA No.)	Federal Transit Cluster (20.500; 20.507; S-20.507)
Type of Finding	Significant Deficiency, Non Compliance
Compliance Requirement(s)	Reporting
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 49 CFR 16 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* *The Federal Financial Report (FFR) (SF-425/SF-425A (OMB No. 0348-0061))* should be used by recipients as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10c). References to this report include its applicability as both an expenditure and a cash status report unless otherwise indicated. The Federal Transit Cluster program is required to report expenditures incurred by the program quarterly in SF-425 Federal Financial Reports.
Condition	We found that 6 of the 6 SF-425 Federal Financial Reports selected for testing agreed to the supporting documentation provided; however, the supporting documentation could not be reconciled back to the State's financial accounting system, First State Financials (FSF). The reported federal share of the expenditures was $1,689,455 for the 6 reports, but the amount recorded in FSF cannot be determined. The total population of SF-425 reports subject to testing reported expenditures of $20,088,064 and FSF has $24,258,411 of expenditures.
Cause	The Program was in the process of updating their reporting policy and procedures to correct previous year findings. We note that FTC on a monthly basis, downloads expenditure data into excel, and then it is manually adjusted, by a Delaware Department of Transportation (DelDOT) Information and Technology personnel, to identify the expenditures relating to the Federal Transit Cluster program (FTC). We were unable to observe any evidence of review of the process, or evidence of any Federal expenditure reconciliations prepared by management to ensure the modified reports were complete and accurate. The Department of Transportation does not have policies or procedures in place to document the completeness and accuracy of the trail of expenditure data from FSF to what is being reported in its SF-425 reports.
Effect	Failure to properly document the bridge of expenditure information reported can lead to errors in federal reports and incomplete data for a supervisory review.

Recommendation	We recommend that the Department continue to implement the updated policies and procedures such as reconciliations and proper review and approval of the information being reported in SF-425 reports. We recommend that management also additionally consider restructuring FSF coding to enable direct reporting from FSF.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Earle Timpson***
Agency Contact Phone Number	***302-760-2678***
Corrective Action Plan	Regarding the capture of the FSF expenditures and the ability to reconcile the data to the SF-425 reports the following actions have been implemented. Programming staff have updated their policies and procedures for collecting and manipulating the month end data from FSF. Once all the queries are run the files are saved to record a month-end record. These files are then forwarded to Finance staff to be used for reporting and reconciliation. Additionally, the finding references a variance in SF-425 expenditures versus FSF expenditures. The variance of $4+ million is created because of accrued unbilled and not a reconciliation problem. Several projects were funded with yet to be approved grants. This is possible due to "Pre-award authority". **Update 8/1/14 - Programming modified to correct the AR report in FSF to reflect ALL FTA expenditures but there continues to be timing variances surrounding accrued unbilled and "pre-award" authority. We feel these issues will always exist and adjusting entries will be needed in order to address the timing variances.**
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	Not fully corrected and will continue to be a reconciliation issue due to timing.
Anticipated Completion Date (if not Fully corrected).	None. We recommend that this be reviewed as known reconciliation discrepancy, otherwise it will continue to be a finding. There are no system modifications or process improvements that will eradicate these variances.

Agency	U.S. Department of Transportation
Fiscal Year	2014
Reference Number	2013-043
Related Prior Year Findings	N/A
Related 2014 Findings	2014-051
Program Name (CFDA No.)	Federal Transit Cluster (20.500; 20.507; S-20.507)
Type of Finding	Material Weakness, Material Noncompliance
Compliance Requirement(s)	Subrecipient Monitoring
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 29 CFR 97 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* When a subrecipient is given award money from the pass through entity, the pass through entity must ensure that they have properly identified to the subrecipient the terms of the award, that they must comply with federal requirements, ensure they are effectively monitoring the subrecipient, and that the subrecipient is conducting an audit every year if expending more than $500,000 of federal funds. A Pass Through Entity is responsible for: *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient o have the required audits, the pass-through entity shall take appropriate action using sanctions.
Condition	The Department's subrecipient monitoring procedures have the following weaknesses: • There was no evidence of the Program receiving and reviewing the OMB Circular A-133 reports for 2 subrecipients during the year. While both A-133 reports had findings reported, only one of the subrecipient's A-133 report had findings contributed to this Program. Because the A-133 reports were not obtained, there was no follow up on the corrective action plans for the findings related to this Program. • The Program incurred $9,202,370 in project costs for one subrecipient and $6,906,217 in project costs for the other. Total Program costs during the year were $24,258,411.

Cause	Program management did not fully understand the distinction between a vendor and a subrecipient because the Department typically contracts with only vendors. Management believed the 2 subrecipients to be vendors and monitored them during the year as vendors.
Effect	The Program did not properly monitor its subrecipients, which could result in problems with subrecipients going undetected by the Department.
Recommendation	We recommend that the Program put procedures in place to ensure that they effectively identify subrecipients during the year and accurately monitor them during the award including obtaining the OMB Circular A-133 audit reports and following up on any issues reported.
Questioned Costs	There are no questioned costs as the 2 subrecipients were monitored throughout the year; however, OMB Circular A-133 reports were not obtained. Single Audits were obtained after the fact from the entities and, although there were findings related to the Program for one of the subrecipients, no questioned costs were reported for the program.
Agency Contact Name	***Earle Timpson***
Agency Contact Phone Number	***302-760-2678***
Corrective Action Plan	**1.** DelDOT/DTC has revised their procedures to include the requirement that we obtain a copy of a Subrecipients annual audit when that subrecipient incurs expenditures of more than $500,000 of federal funds in a given year. Subsequent to DTC being made aware of this requirement they obtained information from both Amtrak and SEPTA and forwarded it to KPMG for their files. The SEPTA audit information was forwarded on September 30, 2013 and the Amtrak September 20, 2013. We assume this information was sufficient as DTC has not received any additional requests for documentation. **Update 8/1/14 – DTC obtained a finding because they did not monitor Amtrak and SEPTA. Procedures were revised at DTC and they are now performing this function. They are also obtaining the required information after the report was issued that was need to complete the files for Amtrak and SEPTA. The changes should result in a full correction.** **2. Update 1/22/15 - During the investigative portion of the A-133 2014 Audit it was determined that while DTC had written procedures related to Subrecipient monitoring there was still insufficient evidence that DTC was meeting the requirements of the A-102 Common Rule. Since this finding DTC has renewed their efforts to ensure compliance. A meeting was requested with Amtrak officials and has been held. It was determined that Amtrak's Fiscal Year period is 10/1 to 9/30. DTC requested that Amtrak provide a copy of their annual audit to them and we will in turn provide this to KPMG for their files. In addition, arrangements have been made for periodic meetings with Amtrak to enable improved monitoring of their projects and ensure internal controls are designed and implemented to achieve compliance with all federal laws and regulations. Similar discussions have commenced with SEPTA.**
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	Should be fully corrected due to updated changes.

Anticipated Completion Date (if not Fully corrected).	April 30, 2015 (Allows time to show that several meetings were held with SEPTA and controls have been implemented)

Agency	U.S. Department of Transportation
Fiscal Year	2014
Reference Number	2013-044
Related Prior Year Findings	N/A
Related 2014 Findings	2014-050
Program Name (CFDA No.)	Federal Transit Cluster (20.500; 20.507; S-20.507)
Type of Finding	Material Weakness, Material Noncompliance
Compliance Requirement(s)	FFATA Reporting
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting. The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts. As provided in 2 CFR part 170 and FAR Subpart 4.14, respectively, Federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204- 10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act. Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS. They first are required to register in Central Contractor Registration (CCR) (if they have not done so previously for another purpose, e.g., submission of applications through Grants.gov) and actively maintain that registration. Reporting requirements shall include the following key data elements about the first-tier subrecipients and subawards under grants and cooperative agreements: subaward date, Subawardee DUNS number, amount of subaward, Subaward Obligation/Action Date, Date of Report Submission, and Subaward Number.
Condition	The Program had one subrecipient during the year that received Non-ARRA funding, however no Federal Funding Accountability and Transparency Act (FFATA) Report was submitted. The Program attempted to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) but was unable to register. The Program could not provide sufficient evidence that they attempted to resolve the issue so

	that they could submit the required report. As such, the Program did not demonstrate a good faith effort to comply with FFATA requirements. Total expenditures for the subrecipient totaled $9,202,370.
Cause	Program management was unable to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) as a prime awardee and no support could be provided that they attempted to resolve the issue.
Effect	The Program is not completely and accurately reporting expenditures to subrecipients to the Federal government.
Recommendation	The Program should enhance their policy for FFATA reporting to ensure reports are being properly submitted and they maintain evidence of resolving issues in trying to submit the reports.
Questioned Costs	There are no questioned costs.
Agency Contact Name	***Earle Timpson***
Agency Contact Phone Number	***302-760-2678***
Corrective Action Plan	The FY2013 Audit identified Finding 13-DOT-05 with respect to FFATA Reporting. Since then DelDOT has been able to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) as a prime awardee. We have begun the process of entering historical data into the system to identify reimbursements to the subrecipients associated with specific grants. In some instances the subrecipient needs to obtain a DUNS number. We also encountered a problem where the award date to the Prime Awardee (DelDOT) was later than the award date to the subrecipient. DelDOT contacted the 1. Federal Help Desk and FTA Region 3 for guidance. Eventually the Help Desk advised that we could enter a date later than to award date to the subrecipient. We anticipate that all the required prior data will be entered into FSRS by the end of the second quarter. **Update 8/1/14 - At the time DelDOT Finance was not able to register in the Transparency Act Subaward Reporting System (FSRS). Since the finding Finance has registered for both FHWA and FTA. DelDOT Finance has also worked with their staff to better understand the rules with respect to reporting data when grants on the FTA side had not even been submitted nor approved. DelDOT initially committed to entering data by the end of the second quarter. Data was entered initially but staff struggles with other demands in maintaining the system currently. DelDOT estimates to have be doing the FTA inputs monthly by October. The FHWA updates are estimated to take until January due to some issues that FHWA has been unable to resolve with many states relative to system access.**
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	Continue to work on.
Anticipated Completion Date (if not Fully corrected).	January 2015.

Agency	U.S. Department of Transportation
Fiscal Year	2014
Reference Number	2013-045
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Highway Planning and Construction (20.205; S-20.205; 20.219)
Type of Finding	Material Weakness, Non Compliance
Compliance Requirement(s)	Reporting (1512 Reporting)
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 43 CFR 12 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* The Delaware OMB 1512 Reporting Instruction Manual states ―Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as ―instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity. A significant reporting error is defined as ―instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will my misled or confused by the recipient report in question. ―The Prime recipient must ensure That there are no material omissions or significant reporting errors in each quarterly report. The Delaware OMB 1512 Reporting Instruction Manual states ―Data quality (i.e. accuracy, completeness and timely reporting of information) reviews required by the OMB June 22 Guidance are intended to avoid two key data problems – material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal Responsibility for the quality of the information submitted. Subrecipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and subrecipients should establish internal controls to ensure completeness, accuracy, and timely reporting of all amounts funded by the Recovery Act. The Compliance Supplement also states that compliance testing of the ARRA reporting requirements shall include only the following key data elements of the 1512 reporting: Recipient Data Elements: Award number, Award Amount, Total Federal Amount ARRA Funds Received/Invoiced, and Total Federal Amount of ARRA Expenditures.

Condition	Of the 34 reports required to be submitted for the quarter ending March 31, 2013, we found no evidence of independent review on six of those 1512 Reports. The same individual creates and submits the reports with no subsequent independent review performed which resulted in the following errors in our sample: • For award number N056038, the "Total Federal Amount of ARRA Expenditure" per the 1512 report does not agree to the First State Financials (FSF) accounting system detail, resulting in a $103,409 understatement of reported expenditures. In addition, the vendor supporting payment schedules also did not agree to FSF accounting system detail as of March 31, 2013, resulting in an understatement of $622,575 of reported expenditures. • For award K007007, the vendor supporting payment schedules did not agree to FSF accounting system detail as of March 31, 2013, resulting in a $56,877 understatement of reported expenditures. Total expenditures reported on the 34 reports were $102,867,069 while total expenditures for the six reports we reviewed totaled $47,340,044.
Cause	The exceptions occurred because there is no segregation of duties between the preparation, submission, and review of the reports. As such, these errors were not discovered by a subsequent independent reviewer.
Effect	The Program is not properly reporting expenditures to the Federal government, which could result in adjustments to future grants received from the U.S. Department of Transportation.
Recommendation	The Program should assign a Program staff person to review the data entered prior to submission. Additionally, KPMG suggests a reconciliation from FSF to the 1512 Reports that both ensures the 1512 Reports' accuracy as well as agrees the total amounts to FSF.
Questioned Costs	There are no questioned costs for the 1512 reports as the errors resulted in understated expenditures of $103,409 for grant award N056038 and $56,877 for grant award K007007.
Agency Contact Name	***Edited by Beverly Swiger – Originally reported by James Hoagland***
Agency Contact Phone Number	***760-2036***
Corrective Action Plan	Current internal procedures have refined, and will be reviewed again. *There is currently only one project remaining that contains ARRA funding. This project is expected to spend through August 2014. We anticipate that this timing issue may still occur until these funds are fully expended.* **Update 8/1/2014 – The report is no longer available due to the fact that ARRA reporting is no longer required. We recommend that this item be closed due to the inability to perform the task.**
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	Unable to correct so no longer warranting action.
Anticipated Completion Date (if not Fully corrected).	

Agency	U.S. Environmental Protection Agency
Fiscal Year	2014
Reference Number	2013-046
Related Prior Year Findings	N/A
Related 2014 Findings	2014-052
Program Name (CFDA No.)	Capitalization Grants for Clean Water State Revolving Funds (66.458)
Type of Finding	Significant Deficiency, Non Compliance
Compliance Requirement(s)	Special Tests and Provisions (Fund Establishment, Loan Repayments, Fund Earnings, and Uses of Funds)
Criteria	*Control exceptions:* The A-102 Common Rule and its attachments found in 45 CFR 92 require that non-Federal entities receiving Federal awards (i.e., management) establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. *Compliance exceptions:* Repayment of loans shall begin within one year after project completion, and loans shall be fully amortized over not more than 20 years after project completion (40 CFR sections 35.3110(b) and 35.3120(a) and the policy statement titled *Transfer and Cross-Collateralization of Clean Water Revolving Funds and Drinking Water State Revolving Funds* published in the October 13, 2000, *Federal Register* (65 FR 60940)).
Condition	The Program had 18 loans entering repayment status in State Fiscal Year2013. For two loans, totaling $1,791,872, of the three loans tested, DNREC did not send notifications of "due dates" for the first loan repayments to subrecipients in a timely manner. As a result, payments did not begin within a year of the project completion date listed in the loan agreement. The 18 loans entering repayment status amounted to $48,754,158 while the three loans examined totaled $2,070,884. In addition, DNREC did not have an effective control in place to ensure compliance with the federal requirements as management's review of the signed agreement and loan activity did not deter or detect noncompliance.
Cause	
Effect	DNREC was unable to ensure that repayment of loans started within one year after project completion.
Recommendation	DNREC should implement a tracking system at the time of loan closing that allows management to determine when a letter regarding first repayment should be submitted so that the payments are made timely.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Terry L. Deputy, CEcD*** ***Frank Paquette***

Agency Contact Phone Number	***(302) 739-9941***
Corrective Action Plan	FAB has reviewed the wording in the loan closing documents with the law firm Saul Ewing responsible for the preparation of those documents. Saul Ewing and DNREC will work together to revise those documents for all future loans to clarify the determination of the construction completion date and establish procedures for amending those documents to modify that date if justification is provided by the borrower and approved by FAB. FAB is also in the process of replacing our current loan servicing software program FABTrac with the program Enable which will include the ability for FAB to provide dates in the program for certain project milestones, including stated project completion dates, and Enable will advise both the engineering and financial sections of FAB if those dates are approaching so that the progress towards those milestones will be reviewed and appropriate corrective action can be taken if necessary.
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	See response below
Anticipated Completion Date (if not Fully corrected).	

Agency	Department of Services for Children, Youth, and Their Families
Fiscal Year	2009
Reference Number	09-CYF-01
Related Prior Year Findings	04-CYF-01, 05-CYF-01, 06-CYF-01, 07-CYF-01, 08-CYF-01
Program Name (CFDA No.)	Foster Care – Title IV-E (93.658)
Type of Finding	Disclaimer of Opinion
Compliance Requirement(s)	All
Criteria	Federal regulations require that "The State shall promptly amend the cost allocation plan and submit the amended plan to the Director [U.S. Department of Health and Human Services, Division of Cost Allocation] (DHHS, DCA), if any of the following events occur: • The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures. • A material defect is discovered in the cost allocation plan by the Director, DCA, or the State. • The State plan for public assistance programs is amended so as to affect the allocation of costs. • Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid." (45 CFR §95.509) The DHHS Grants Administration Manual, which outlines the protocols for submission, review, and approval of cost allocation plans developed by State agencies for public assistance programs, specifies that "Cost disallowances will be made for inappropriate claims resulting from a State's failure to comply with its approved cost allocation plan…or its failure to submit an amended plan as required." (Grants Administration Manual 6-200-50).
Condition	The DHHS Office of Inspector General issued report number A-03-03-00562 dated July 6, 2005 covering the five-year audit period October 1, 1998 to September 30, 2003 that stated, in part: "Delaware's cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting federal and State programs. DCA approved Delaware's cost allocation plan 95-1 in March 1999. The plan was effective from October 1998 through September 1999. In December 1999, DCA approved cost allocation plan 95-2, effective October 1999. After approval of plan 95-2, ACF [DHHS, Administration for Children and Families regional officials noted unanticipated increases in Title IV-E administrative costs. ACF initiated deferral of certain costs claimed for Title IV-E candidates and requested that the Office of Inspector General audit Delaware's claims for Title IV-E administrative and training costs developed under plan 95-2."

	The report further states that: "The [State Department of Services for Children, Youth and Their Families (DSCYF)] Department of Services used the revised 95-2 methodology to allocate candidates' case management costs…during the quarters ended December 1999 through June 2003." And that: "Beginning with the quarter ended September 2003, the Department of Services returned to the earlier method that properly allocated candidate costs to benefiting programs. However, the Department of Services did not amend its cost allocation plan." The report identifies costs of $5,859,542 (federal share) over the five-year period under audit related to the use of the 95-2 methodology, and recommends, in part, that the State "…amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates." DSCYF stated its concurrence with this recommendation in its official response to the audit report, and stated its intention to amend its cost allocation plan in the December 2005-January 2006 time frame, anticipating approval from the Regional Office of the Administration for Children and Families (RO) to pilot a proposed DSCYF foster care candidacy documentation system. DSCYF, in the interim, reverted to the previously approved 95-1 methodology after discussion with DHHS. For the period under audit for purposes of the Single Audit (July 1, 2008 through June 30, 2009), the Foster Care program was not operating under a cost allocation plan submitted in accordance with 45 CFR §95.509 and DHHS Grants Administration Manual Chapter 6-200-50. Costs allocated using the original methodology approved in the 95-1 cost allocation plan for the Foster Care program for the year ended June 30, 2009 were $1,135,673, representing 30% of the total program costs of $3,777,636. In Fiscal Year 2006, the Federal Health and Human Services Inspector General's office audited the Department's allocation of administrative and training costs to the Title IV-E program for which a final report has been issued. As a result of the uncertainty surrounding implementation of a new cost allocation plan related to Foster Care, we will not opine on compliance for this program.
Cause	Differing interpretations of federal regulations concerning allocable costs.
Effect	Failure to obtain timely approval of the cost allocation plan could result in questioned costs.
Recommendation	We recommend that DSCYF continue to work with the DHHS Regional Office in implementing the recommendations included in report A-03-03-00562 which it concurred within a letter dated May 25, 2005 included as an appendix to that report.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Christine L. Kraft, DSCYF Controller***
Agency Contact Phone Number	***(302) 892-4548***

Corrective Action Plan	DSCYF submitted a new Title IV-E Foster Care and Adoption Assistance Cost Allocation Plan (CAP) to the US DHHS Division of Cost Allocation New York, NY, and to the Administration for Children and Families Region III Office, Philadelphia PA on August 29, 2011. Both offices have acknowledged receipt of the CAP which contains a new Random Moment Time Sample survey, a proposed methodology for reinstating Foster Care Candidacy (Pre-Placement) claims, and updated allocation schedules that reflect the reorganization of the department as of July 1, 2011. As of June 30, 2012, DSCYF has received initial commentary and questions concerning the contents of the proposed CAP from the US DHHS Division of Cost Allocation New York, NY, the ACF Region III Office, Philadelphia PA, and the Centers for Medicare and Medicaid Services Region III Office, Philadelphia PA. DSCYF is currently reviewing the commentary and questions, and plans to resubmit the CAP prior to the end of August 2012. **As of November 2014**, negotiations with the US DHHS Division of Cost Allocation New York, NY, as well as the Centers for Medicare and Medicaid Services (CMS) and the Administration for Children and Families (ACF), Region III Offices, Philadelphia, PA, remain ongoing with the most recent version of the CAP having been submitted on November 17, 2014. It should be noted that with this version DSCYF has decided not to continue to pursue claiming for Division of Family Services Pre-placement Foster Care Candidates and has also decided not to pursue Medicaid administrative cost claiming for our Division of Youth Rehabilitative Services (DYRS) and these two items have been removed from the proposed CAP. In the November 17, 2014 submission of the CAP, DSCYF has responded to a set of updated questions/comments from CMS and ACF, and we are awaiting a 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	Awaiting response from the US DHHS Division of Cost Allocation New York, NY, as well as the Centers for Medicare and Medicaid Services (CMS) and the Administration for Children and Families (ACF), Region III Offices, Philadelphia, PA to DSCYF's November 2014 submission.
Anticipated Completion Date (if not Fully corrected).	CAP is still under negotiation. Completion date is dependent on DCA, CMS, and ACF approval.

Agency	Department of Services for Children, Youth, and Their Families
Fiscal Year	2009
Reference Number	09-CYF-03
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Adoption Assistance (93.659)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Allowable Costs
Criteria	Federal regulations require that "The State shall promptly amend the cost allocation plan and submit the amended plan to the Director [U.S. Department of Health and Human Services, Division of Cost Allocation] (DHHS, DCA), if any of the following events occur: • The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures. • A material defect is discovered in the cost allocation plan by the Director, DCA, or the State. • The State plan for public assistance programs is amended so as to affect the allocation of costs. • Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid.‖ (45 CFR §95.509) The DHHS Grants Administration Manual, which outlines the protocols for submission, review, and approval of cost allocation plans developed by State agencies for public assistance programs, specifies that "Cost disallowances will be made for inappropriate claims resulting from a State's failure to comply with its approved cost allocation plan…or its failure to submit an amended plan as required." (Grants Administration Manual 6-200-50).
Condition	The U.S. Department of Health and Human Services (DHHS) Office of Inspector General issued report number A-03-03-00562 dated July 6, 2005 covering the five-year audit period October 1, 1998 to September 30, 2003 that stated, in part: "Delaware's cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting federal and State programs. DCA approved Delaware's cost allocation plan 95-1 in March 1999. The plan was effective from October 1998 through September 1999. In December 1999, DCA approved cost allocation plan 95-2, effective October 1999. After approval of plan 95-2, ACF [DHHS, Administration for Children and Families] regional officials noted unanticipated increases in Title IV-E administrative costs. ACF initiated deferral of certain costs claimed for Title IV-E candidates and requested that the Office of Inspector General audit Delaware's claims for Title IV-E administrative and training costs developed under plan 95-2."

	The report further states that: "The [State Department of Services for Children, Youth and Their Families (DSCYF)] Department of Services used the revised 95-2 methodology to allocate candidates' case management costs…during the quarters ended December 1999 through June 2003. And that: "Beginning with the quarter ended September 2003, the Department of Services returned to the earlier method that properly allocated candidate costs to benefiting programs. However, the Department of Services did not amend its cost allocation plan." The report identifies costs of $5,859,542 (federal share) over the five-year period under audit related to the use of the 95-2 methodology, and recommends, in part, that the State "…amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates." DSCYF stated its concurrence with this recommendation in its official response to the audit report, and stated its intention to amend its cost allocation plan in the December 2005-January 2006 time frame, anticipating approval from the Regional Office of the Administration for Children and Families (RO) to pilot a proposed DSCYF foster care candidacy documentation system. DSCYF, in the interim, reverted to the previously approved 95-1 methodology after discussion with DHHS. For the period under audit for purposes of the Single Audit (July 1, 2008 through June 30, 2009), the Adoption Assistance program was not operating under a cost allocation plan submitted in accordance with 45 CFR §95.509 and DHHS Grants Administration Manual Chapter 6-200-50. Costs allocated using the original methodology approved in the 95-1 cost allocation plan for the Adoption Assistance program for the year ended June 30, 2009 were $235,365, representing 12% of the total program costs of $1,914,290. In Fiscal Year 2006, the Federal Health and Human Services Inspector General's office audited the Department's allocation of administrative and training costs to the Title IV-E program for which a final report has been issued.
Cause	Differing interpretations of federal regulations concerning allocable costs.
Effect	Failure to obtain timely approval of the cost allocation plan could result in questioned costs.
Recommendation	We recommend that DSCYF continue to work with the DHHS Regional Office in implementing the recommendations included in report A-03-03-00562 which it concurred within a letter dated May 25, 2005 included as an appendix to that report.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	***Christine L. Kraft, DSCYF Controller***
Agency Contact Phone Number	***(302) 892-4548***
Corrective Action Plan	DSCYF submitted a new Title IV-E Foster Care and Adoption Assistance Cost Allocation Plan (CAP) to the US DHHS Division of Cost Allocation New York, NY, and to the Administration for Children and Families Region III Office, Philadelphia PA on August 29, 2011. Both offices have acknowledged receipt of the CAP which contains a new Random

	Moment Time Sample survey, a proposed methodology for reinstating Foster Care Candidacy (Pre-Placement) claims, and updated allocation schedules that reflect the reorganization of the department as of July 1, 2011. DSCYF has requested that the CAP become effective as of October 1, 2011. As of June 30, 2012, DSCYF has received initial commentary and questions concerning the contents of the proposed CAP from the US DHHS Division of Cost Allocation New York, NY, the ACF Region III Office, Philadelphia PA, and the Centers for Medicare and Medicaid Services Region III Office, Philadelphia PA. DSCYF is currently reviewing the commentary and questions, and plans to resubmit the CAP prior to the end of August 2012. **As of November 2014**, negotiations with the US DHHS Division of Cost Allocation New York, NY, as well as the Centers for Medicare and Medicaid Services (CMS) and the Administration for Children and Families (ACF), Region III Offices, Philadelphia, PA, remain ongoing with the most recent version of the CAP having been submitted on November 17, 2014. It should be noted that with this version DSCYF has decided not to continue to pursue claiming for Division of Family Services Pre-placement Foster Care Candidates and has also decided not to pursue Medicaid administrative cost claiming for our Division of Youth Rehabilitative Services (DYRS) and these two items have been removed from the proposed CAP. In the November 17, 2014 submission of the CAP, DSCYF has responded to a set of updated questions/comments from CMS and ACF, and we are awaiting a 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	Awaiting response from the US DHHS Division of Cost Allocation New York, NY, as well as the Centers for Medicare and Medicaid Services (CMS) and the Administration for Children and Families (ACF), Region III Offices, Philadelphia, PA to DSCYF's November 2014 submission.
Anticipated Completion Date (if not Fully corrected).	CAP is still under negotiation. Completion date is dependent on DCA, CMS, and ACF approval.

STATE OF DELAWARE

Summary Status of Prior Year Findings

June 30, 2014

The following findings from years prior to FY13 have been fully corrected or no longer warrant further action:

Finding Number	Program Name	Program CFDA #	Compliance Requirement	Status
12-5	Title I Grants to Local Educational Agencies, Special Education Cluster. Improving Teacher Quality State Grants	84.010, S-84.389; 84.027, 84.173, S-84.391, S-84.392; 84.367	Level of Effort (Maintenance of Effort)	Fully Corrected
12-14	Supplemental Nutritional Assistance Program, Temporary Assistance for Needy Families, Child Care Cluster, State Children's Health Insurance Program, Medicaid Cluster	10.551, 10.561; 93.558, S-93.714; 93.575, 93.596; 93.767; 93.775, 93.777, S-93.777, 93.778	Allowable Costs	Fully Corrected
12-19	Temporary Assistance for Needy Families	93.558, S-93.714	Reporting	Fully Corrected
12-22	Special Supplemental Nutrition Program for Women, Infants and Children	10.557	Cash Management	Fully Corrected
11-CSE-01	Child Support Enforcement	93.563, S-93.563	Special Tests and Provisions (Establishment of Paternity and Support Obligations)	Fully Corrected
10-CSE-02	Child Support Enforcement	93.563, S-93.563	Special Test and Provisions- Enforcement of Support Obligations	Fully Corrected
10-SSC-02	Low Income Home Energy Assistance Program	93.568	Subrecipient Monitoring	Fully Corrected