



ACFR

INTERNAL CONTROLS

FINANCIAL STATEMENT AUDIT
FOR YEAR ENDED JUNE 30, 2022

ACFR FINANCIAL STATEMENT INTERNAL CONTROLS REPORT

REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2022

BACKGROUND

Government Auditing Standards require Delaware to issue a report on the controls relied upon in the financial statement audit of the state's Annual Comprehensive Financial Report (ACFR). Although the purpose of the ACFR is to provide financial transparency and accountability for the management of the state funds, this report provides information on identified instances of improper controls and non-compliance that were considered to be reportable to the State. The internal control report and findings of the ACFR were conducted according to Generally Accepted Government Auditing Standards (GAGAS), and do not express an opinion on the effectiveness of the State's internal controls.



KEY INFORMATION AND FINDINGS

There are two findings in this report:

Finding #1

There was a material weakness found that the Department of Labor did not have controls properly implemented to ensure the unemployment fund accounts were reconciled timely, and balances were recorded accurately.

Auditors assessed that several factors contributed to the situation, including the fact that the mainframe accounting system used by the Unemployment Fund is an antiquated system and it is difficult to produce user friendly information out of this system on a timely basis for account reconciliations and review. Also, the initial trial balance received required additional reconciliation and review by the Department of Labor before auditors could complete audit procedures. Moreover, the Department did not have adequate staffing in place to complete required accounting work, including account reviews and reconciliations, on a timely basis and required the State's Division of Accounting to assist with the process before auditors were able to complete the audit procedures.

Management concurred with the finding and has made a commitment to recruit and hire vacant MERIT positions within the accounting unit and supplement with contractual resources to ensure reconciliation timeliness. The agency has engaged with an accounting firm to assist with process improvements and has instituted procedures designed to ensure timely reporting.

Finding #2

There was a significant deficiency in the Department of Labor which did not have a documented methodology or understanding of the methodology used in determining the allowance for doubtful accounts for accounts receivable and taxes receivable for the unemployment fund. As a result, the Division of Accounting reviewed the Department's allowance calculations and subsequently adjusted the allowance calculation using historical allowance percentages.

Auditors assessed that the lack of documented policy and procedures to support an allowance calculation, and ensure DOL's approach was reasonable, led to the situation.

Management concurred with the finding and is working with an outside accounting firm to establish an allowance methodology. DOL is developing procedures for completing allowance for doubtful accounts support and ensuring adequate training.



For any questions regarding the attached report, please contact
OAOA_Comms@delaware.gov.

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FULL REPORT](#)**



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, 2022, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated January 27, 2023. Our report includes a reference to other auditors who audited the financial statements of certain agencies and component units of the State of Delaware, which represent the indicated percent of total assets and deferred outflows of resources and total revenues as described in our report on the State's financial statements and as presented in the following table. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors. This report does not include the results of our testing of internal control over financial reporting or compliance and other matters for the Delaware Department of Transportation, Delaware State Lottery and Delaware State University as we have issued separate reports for the Delaware Department of Transportation, Delaware State Lottery and Delaware State University. The financial statements of the Delaware Sustainable Energy Utility and the Riverfront Development Corporation of Delaware were not audited in accordance with *Government Auditing Standards* and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Delaware Sustainable Energy Utility and the Riverfront Development Corporation of Delaware.

Opinion Unit	Entity	Percentage Audited by Other Auditors	
		Assets and Deferred Outflows of Resources	Revenues
Governmental Activities	Sustainable Energy Utility, Inc.	1.0%	0.3%
Discretely Presented Component Units	Delaware State Housing Authority, Diamond State Port Corporation, Riverfront Development Corporation, Delaware State Foundation, Delaware Charter Schools, and Delaware Agricultural Lands Preservation Foundation	81.4%	72.0%
General Fund	Sustainable Energy Utility, Inc.	3.0%	0.5%
Aggregate Remaining Fund Information	Delaware Public Employees' Retirement System and Delaware Other Postemployment Benefits Fund Trust	98.9%	72.2%

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Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings and management response as item 2022-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and management response as item 2022-002 to be a significant deficiency.

Report on Compliance and Other Matters

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

The State's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the State's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The State's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
January 27, 2023

State of Delaware
Schedule of Findings and Management Response
June 30, 2022

Material Weakness

Finding 2022-001 – Unemployment Fund – Account Reconciliations

Condition

The Department of Labor did not have controls properly implemented to ensure that accounts were reconciled timely, and balances were recorded accurately.

Criteria

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

Context

We encountered significant difficulties in obtaining reconciliations and account details to complete our audit procedures over the Unemployment Fund. The Department of Labor does not have adequate staff or the established internal controls over financial reporting in place to ensure the reconciliation and review of account balances at year end are performed accurately and timely. In addition, the mainframe system used to produce account details does not provide user friendly reports to assist staff and management with performing and reviewing account reconciliations.

Effect

Certain adjustments were required to be made to the accounting records by the State’s Division of Accounting subsequent to the start of the audit process. This resulted in a delay in issuing the State’s ACFR by December 31, 2022.

Cause

Various factors contributed to the cause of the finding. Firstly, the accounting system used by the Unemployment Fund is an antiquated system and it is difficult to produce user friendly information out of this system on a timely basis for account reconciliations and review. Secondly, the initial trial balance received required additional reconciliation and review by the Department of Labor before we could complete our audit procedures. Thirdly, the Department does not have adequate staffing in place to complete required accounting work, including account reviews and reconciliations, on a timely basis and required the State’s Division of Accounting to assist with this process before we were able to complete our audit procedures.

Recommendation

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

Management Response

Management concurs with the finding. The Agency has made a commitment to recruit and hire vacant MERIT positions within the accounting unit and supplement with contractual resources to ensure reconciliation timeliness. The agency is partnering with an outside accounting firm to assist with continuous improvements and year end close process. Agency has reviewed and updated procedures up to and including monthly due dates to ensure timely reporting and discrepancy investigation. Supervisor and Tax Collection Manager will verify monthly report timeliness.

Significant Deficiency

Finding 2022-002 – Unemployment Fund – Allowance for Doubtful Accounts

Condition

The Department of Labor (DOL) did not have a documented methodology or understanding of the methodology used in determining the allowance for doubtful accounts for accounts receivable and taxes receivable.

Criteria

The State of Delaware's Budget and Accounting Policy Manual states that "Management is responsible for maintaining and communicating written policies and procedures to ensure that an effective system of internal control exists within each Organization. Effective policies and procedures help ensure management directives are carried out and that necessary actions are taken to address risks to the achievement of the Organization's objectives. Managers should continuously monitor and improve the effectiveness of internal control associated with DOL's respective internal programs. This continuous monitoring and other periodic evaluations provide the basis for management's verification that existing controls are sufficient to safeguard the Organization's assets."

Context

The Department was unable to support the allowance for doubtful accounts calculation for accounts receivable and taxes receivable with a documented methodology and did not have a good understanding of the historical methodology applied.

Effect

The Division of Accounting reviewed the Department's allowance calculations and subsequently made adjustments to the allowance calculation using historical allowance percentages.

Cause

The Department of Labor did not have documented policy and procedures to support the allowance calculation and ensure DOL's approach was reasonable.

Recommendation

We recommend that the Department of Labor establish a written methodology and policies and procedures for the methodology used to determine the allowance for doubtful accounts for accounts receivable and taxes receivable. The Department should also implement processes to regular review this methodology to ensure it is reasonable and reflective of actual collectability.

Management Response

Management concurs with the finding. The Agency is committed to working with our outside accounting partner to establish the allowance methodology. We are developing procedures for completing allowance for doubtful support and ensuring adequate training. Agency will review the methodology regularly. We estimate documented methodology and policies to be completed by 5/30 in preparation for EOY closeout.