



DNREC HAZARDOUS SUBSTANCE

FINANCIAL STATEMENT AUDIT
FOR YEAR ENDED JUNE 30, 2022

DELAWARE DNREC HAZARDOUS SUBSTANCE CLEANUP FUND

REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2022

BACKGROUND

This engagement was performed in accordance with 29 Del. C. §2906.

In July 1990, the General Assembly passed legislation establishing the Delaware’s Hazardous Substance Cleanup Act (the “Act”) 7 Del. C., c. 91. The act establishes standards to follow to protect the public health and welfare of citizens and the environment of the state from releases of hazardous substances. The act also establishes a funding mechanism for the Hazardous Substance Cleanup Fund (the “Fund”) which is from the gross receipts tax on certain petroleum products sold in the State of Delaware. The Division of Waste and Hazardous Substance within the Department of Natural Resources and Environmental Control (DNREC) is responsible for administering the Act.



KEY INFORMATION AND FINDINGS

This audit contains an unmodified opinion of the financial statements. An unmodified opinion is sometimes referred to as a “clean” opinion, in which the auditor expresses an opinion that the financial statements present fairly, in all material respects, an entity’s financial position, results of operations, and cash flows in conformity with generally accepted accounting principles.

However, the report did contain one finding related to payroll internal controls resulting in non-compliance with the State’s Budget and Accounting Manual. Five of forty employee records sampled showed no evidence of supervisory review and approval of time.

FUND BALANCE	ADMINISTRATIVE ACCOUNT	CLEANUP FUND	VOLUNTARY CLEANUP FUND	BROWNFIELDS PROGRAM	TOTAL
BEGINNING OF FY22	\$(11,399,210)	\$25,026,657	\$806,734	\$1,907,768	\$16,341,949
END OF FY22	\$(12,689,959)	\$30,308,151	\$750,289	\$2,256,370	\$20,624,851

The Fund is funded primarily by a surtax on certain petroleum products sold in the State.

Although funding is adequate to meet DNREC’s annual expenditure plans and carryover funds exist, the cost of future cleanup of orphaned sites exceeds the money available in the Fund.



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

[CLICK HERE TO VIEW FULL REPORT](#)

**STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS**

JUNE 30, 2022

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
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Independent Auditors' Report

To the Management
The State of Delaware
Department of Natural Resources and
Environmental Control
Hazardous Substance Cleanup Fund
Dover, Delaware

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the State of Delaware, Department of Natural Resources and Environmental Control Hazardous Substance Cleanup Fund (the "Fund"), of which comprise the balance sheet - modified cash basis, as of June 30, 2022, and the related statement of revenues, expenditures and changes in fund balances - modified cash basis and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the balance sheet - modified cash basis of the State of Delaware, Department of Natural Resources and Environmental Control Hazardous Substance Cleanup Fund as of June 30, 2022, and its revenues, expenditures, and change in fund balance - modified cash basis, for the year then ended in accordance with the modified cash basis of accounting described in Note 2.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Management
The State of Delaware
Department of Natural Resources and
Environmental Control
Hazardous Substance Cleanup Fund

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements are intended to present only the Balance Sheet - Modified Cash Basis, as of June 30, 2022, and the related Statement of Revenues, Expenditures and Changes in Fund Balance - Modified Cash Basis and the related notes to the financial statements attributable to the Fund. They do not purport to, and do not present fairly the financial position of the State of Delaware, as of June 30, 2022, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2 to the financial statements and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from

To the Management
The State of Delaware
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Hazardous Substance Cleanup Fund

fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Fund's basic financial statements. The accompanying schedule of revenues, expenditures, and changes in fund balance by account - modified cash basis is presented for purposes of additional analysis is not a required part of the basic financial statements.

To the Management
The State of Delaware
Department of Natural Resources and
Environmental Control
Hazardous Substance Cleanup Fund

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 revenues, expenditures, and changes in fund balance by account - modified cash basis is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2023, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

Belfint, Lyons & Shuman, P.A.

April 5, 2023
Wilmington, Delaware

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
BALANCE SHEET - MODIFIED CASH BASIS
JUNE 30, 2022

ASSETS

Pooled Cash

\$ 20,624,851

FUND BALANCE

Restricted by Enabling Legislation

\$ 20,624,851

The accompanying notes are an integral part of these financial statements

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE -
MODIFIED CASH BASIS
JUNE 30, 2022

REVENUES	
Tax Assessments	\$ 16,091,689
Cost Recovery	283,207
Voluntary Cleanup	137,410
Other	<u>266,819</u>
TOTAL REVENUES	16,779,125
EXPENDITURE	
Cleanup Program	<u>12,496,223</u>
NET CHANGE IN FUND BALANCE	4,282,902
FUND BALANCE - Beginning of Year	<u>16,341,949</u>
FUND BALANCE - End of Year	<u><u>\$ 20,624,851</u></u>

The accompanying notes are an integral part of these financial statements

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022

NOTE 1: SUMMARY OF OPERATIONS

In July of 1990, the State of Delaware (the State) legislature passed, and the Governor signed, legislation establishing the State's "Hazardous Substance Cleanup Act" (HSCA) (the Act). This Act establishes standards to be followed to protect the public health and welfare of citizens and the environment of the State from releases of hazardous substances. The Act also provides a funding mechanism for the program.

The responsibility for administering the Act was vested in the Division of Waste and Hazardous Substances (the Division) within the Department of Natural Resources and Environmental Control (DNREC). Three Sections within the Division are supported by HSCA: the Remediation Section, Emergency Response and Strategic Services Section, and Compliance and Permitting Section. The Remediation Section and Emergency Response and Strategic Services Section together make up the Hazardous Substance Cleanup Fund (the Fund). The Fund is funded primarily by a surtax on certain petroleum products sold in the State.

The Division's Remediation Section supplements the federal government's efforts in cleaning up hazardous sites. The most serious sites in the State become the responsibility of the Federal Government while those that meet lesser criteria become the responsibility of the State.

The Fund's activities are accounted for as a distinct operating unit within the Division. Accordingly, the financial statements of the Fund are intended to present only the transactions related to pooled cash and the related revenues and expenditures of only that portion of the funds of the State that are attributable to the transactions of the Fund.

The Fund is divided into four subfunds: The "Cleanup Fund" for the remediation activities of the Fund and the collection of tax assessments and other revenues; the "Administrative Account" for the administrative activities of the Fund, as well as the cost recovery program; the "Voluntary Cleanup Program" for the oversight of voluntary cleanup efforts; and the "Brownfields Development Program" for the cleanup and redevelopment of vacant, abandoned, or underutilized properties, which may be contaminated. Funds are collected and deposited directly into the appropriate subfund where they sit until cash disbursements are made.

These financial statements are not intended to present the financial position and results of operations of the State of Delaware, taken as a whole. They present only the Fund's share of pooled cash held by the State Treasurer, and its revenues, expenditures and fund balance, on a modified cash basis. The State of Delaware budget appropriations that comprise the Fund include appropriation 20148, holding appropriations 30078 and 30087, revenue appropriations 77801, 77802, 77803, 78701, and spending appropriations 67801, 67802, and 67803. As discussed in Note 2, these

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
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HAZARDOUS SUBSTANCE CLEANUP FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 1: SUMMARY OF OPERATIONS - CONTINUED

financial statements were prepared on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Government Accounting Standards Board (GASB) pronouncements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The Fund's financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under that basis, the only asset recognized is pooled cash in an amount equal to the Fund appropriations, representing amounts held by the State Treasurer. No liabilities are recognized. Consequently, revenues from all sources are recognized when received in the Fund's appropriations, rather than when earned; and expenditures are recognized when recorded against the Fund's appropriations, rather than when the obligation is incurred.

The statement of revenues, expenditure, and change in fund balance - modified cash basis presents sources and uses of available spendable financial resources during a given period and uses fund balance as the measure of available spendable financial resources at the end of the period.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues and certain liabilities and their related expenditures are not recorded in these financial statements.

Fund Balance - In the financial statements, fund balance is classified as follows:

Nonspendable - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of the Delaware Code, state or federal laws, or externally imposed conditions by grantors or creditors.

Committed - Amounts that 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. 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.

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Balance - Continued

Assigned - Amounts that are constrained by the Fund's intent to be used for a specific purpose. Intent can be expressed by the Secretary of DNREC, or by an official or body to which the Secretary delegates the authority.

Unassigned - All amounts not included in other spendable classifications.

The fund balance is restricted per enabling legislation.

When funds are expended for which either restricted or unrestricted resources can be used, the Fund's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications - committed and then assigned fund balances before using unassigned fund balances.

NOTE 3: POOLED CASH

Pooled Cash - State Treasurer's Pool - Pooled cash, as reported on the balance sheet, represent the Fund's allocated share of cash, cash equivalents, and investments under the control of the Treasurer of the State of Delaware (the Treasurer). All cash is deposited with the Treasurer by State agencies and maintained by the Treasurer in various pooled funds. The Treasurer invests the deposited cash, including cash float in short-term securities and other investments. Interest income is credited to the Fund based on the weighted average rate of return on the State's monies applied to the Fund's average monthly spending authority. Pooled investments represent those investments in units of a pool rather than specific securities. Since the Fund's deposits and investments are part of the State's pooled deposits and investments maintained by the Treasurer, the required disclosures related to risks are included in the Delaware Annual Comprehensive Financial Report.

The Cash Management Policy Board - The State's policy for the investment of State funds is the responsibility of 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 any State pension fund and money held under the State deferred compensation program.

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 3: POOLED CASH - CONTINUED

Investment Guidelines and Management - The investment guidelines adopted by the Board provide, among other things, that no more than 10% of the portfolio may be invested in obligations of any one issuer other than the U.S. Government. Investments may be made only in fixed income instruments with maturities of up to five years in certain circumstances.

Collateralization Requirements - All State funds are required by law to be collateralized by direct obligations of, or obligations that 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.’s Bank Watch Service. The Board has also determined that State demand deposits need not be collateralized provided that any bank that holds these funds has for the last two years, a return on average assets of 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.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the legal balance(s) in the accounts(s) each day and ensure that securities pledged are identified as held in the State’s name and are segregated on the bank’s records.

The Policy is available on the Office of the State Treasurer website (<http://treasury.delaware.gov/>).

NOTE 4: REVENUES

The Fund’s primary source of revenues comes from the levy of a tax on all taxable gross receipts from the sale of petroleum and petroleum products, with the exception of crude oil. The tax levy was .9067% with regard to gross receipts received before January 1, 2022. Beginning January 1, 2022, the tax levy is 1.675%.

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 4: REVENUES - CONTINUED

After December 31, 2018, legislation ties HSCA funding to a median benchmark and authorizes the Division of Revenue to adjust the tax rate up or down for the following year. The HSCA tax rate is limited by legislation to a range from .675% to 1.675% of taxable gross receipts. Annually, an amount is set aside for the Brownfields Grant Program, equal to one-third of the amount deposited in that year into the Fund under 7 Del. C. §9113.

Although funding is adequate to meet DNREC's annual expenditure plans and carryover funds exist, the cost of the future cleanup of orphaned sites exceeds the money available in the Fund.

NOTE 5: COMMITMENTS

DNREC has identified over 2,945 sites in Delaware as potential hazardous substance release sites, some of which have been assigned a higher priority (identified as posing a risk to public health, welfare, and/or the environment). These sites are being addressed either under HSCA or under the Federal Superfund Program (National Priority List), with work complete at many of the sites. Additionally, since the inception of Delaware's Voluntary Cleanup Program (begun in 1993) and the Brownfields Program (begun in 1995), 574 sites have entered the program; 368 sites are currently undergoing cleanup; and 725 sites have been cleaned up for reuse. The cost of cleaning up the remaining sites exceeds the money available to the Fund.

HSCA also funded 366 incidents under the Emergency Response and Strategic Service Section. Sites regulated under Delaware Code, Title 7, Chapter 74, Delaware Underground Storage Tank Act, Remediation Section, had 108 active sites and completed remedial activities at 1,336 sites.

NOTE 6: LEASES

On October 30, 2020, the Fund signed an amendment to an original lease dated January 23, 1998, for a cancelable month-to-month operating lease agreement for office space located at 391 Lukens Drive, Riveredge Industrial Park, New Castle, Delaware. The amendment to the original lease commenced on November 1, 2020, and is effective through October 31, 2030, cancelable by either party to the lease with a 90-day notification. The total lease expense for the Fund for the year ended June 30, 2022, under this lease was \$384,656. The expense charged to HSCA was \$297,656, while \$87,292 was covered by the General fund.

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 6: LEASES - CONTINUED

Future minimum lease payments under cancelable operating leases as of June 30, 2022, for the Fund are as follows for the next five years and thereafter for the years ending June 30:

2023	\$	394,430
2024		406,651
2025		419,293
2026		429,154
2027		437,737
Thereafter		<u>1,522,305</u>
Total	\$	<u><u>3,609,570</u></u>

NOTE 7: EMPLOYEE BENEFITS

Employees of the Fund are considered employees of the State and are covered by pension, health insurance, and other employee benefit programs administered by the State.

The Fund contributes monthly to the State Employees' Pension Plan (the Pension Plan), as required by State statutes. Total pension payments of \$446,125 on total wages of \$1,949,104 are included in the financial statements, which is equal to the required contribution. The 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. The State of Delaware General Assembly is responsible for setting benefits and contributions and amending plan provisions.

Certain significant Pension Plan provisions follow:

1. Retirement - Individuals hired prior to January 1, 2012, age 62 with five years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age. Individuals hired on or after January 1, 2012, age 65 with 10 years of credited service; age 60 with 20 years of credited service; or after 30 years of credited service at any age.
2. Service Benefits - Final average monthly compensation multiplied by 2% and multiplied by years of credited service prior to January 1, 1997, plus final average compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

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NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 7: EMPLOYEE BENEFITS - CONTINUED

3. Disability Benefits - Pre-2012 date of hire: Same as Service Benefits. Employee must have five years of credited service. In lieu of disability pension benefits, over 90% of the members of this plan opted into a Disability Insurance Program.
4. Vested Pension - Pre-2012 date of hire: Five years of credited service. Post-2011 date of hire: 10 years of credited service.
5. Survivor Benefits - If an employee is receiving a pension, the eligible survivor receives 50% of the pension (or 67.7% with 2% reduction of benefits, 75% with 3% reduction of benefits, or 100% with a 6% reduction of benefits); if an employee is active with at least five years of credited service, eligible survivor received 75% of the benefit the employee would have received at age 62.
6. Contributions
 - a. Employer - Determined by Board of Pension Trustees. Required to contribute 12.45% of its gross payroll for 2022.
 - b. Pre-2012 date of hire members - 3% of earnings in excess of \$6,000.
 - c. Post-2011 date of hire members - 5% of earnings in excess of \$6,000.
7. Burial Benefit - \$7,000 per member.

The Board of Pension Trustees issues a publicly available report, presented on the accrual basis of accounting, with detailed information about the Plan's fiduciary net position, including financial statements and required supplementary information. That report may be obtained by writing to the State of Delaware, Office of Pensions, McArdle Building, 860 Silver Lake Blvd., Suite 1, Dover, Delaware 19904, or by calling 1-800-722-7300.

Information regarding the Other Post-Retirement Employee Benefit (OPEB) valuation is available in the State's comprehensive annual financial report.

STATE OF DELAWARE
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NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2022

NOTE 8: ADMINISTRATIVE COST LIMIT

Senate Bill 113, passed on August 12, 2019, changed the limit for administrative cost expenditures of the Fund, without approval of the Joint Finance Committee. The bill changed the limit from 15% of the moneys deposited into the Fund to 15% of the average of moneys deposited into the Fund over the previous 10 fiscal years, effective January 1, 2021.

SUPPLEMENTAL INFORMATION

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BY ACCOUNT - MODIFIED CASH BASIS
JUNE 30, 2022

	<u>Administrative Account</u>	<u>Cleanup Fund</u>	<u>Voluntary Cleanup Fund</u>	<u>Brownfields Program</u>	<u>Total</u>
REVENUES					
Tax Assessments	\$ -	\$ 10,727,793	\$ -	\$ 5,363,896	\$ 16,091,689
Cost Recovery	17,481	237,658	-	28,068	283,207
Voluntary Cleanup	-	-	137,410	-	137,410
Other	38,084	228,735	-	-	266,819
TOTAL REVENUES	55,565	11,194,186	137,410	5,391,964	16,779,125
EXPENDITURE					
Cleanup Program	1,346,314	5,912,692	193,855	5,043,362	12,496,223
NET CHANGE IN FUND BALANCE	(1,290,749)	5,281,494	(56,445)	348,602	4,282,902
FUND BALANCE - Beginning of Year	(11,399,210)	25,026,657	806,734	1,907,768	16,341,949
FUND BALANCE - End of Year	<u>\$ (12,689,959)</u>	<u>\$ 30,308,151</u>	<u>\$ 750,289</u>	<u>\$ 2,256,370</u>	<u>\$ 20,624,851</u>



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***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***

To the Management
The State of Delaware
Department of Natural Resources and
Environmental Control
Hazardous Substance Cleanup Fund
Dover, 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 State of Delaware, Department of Natural Resources and Environmental Control, Hazardous Substance Cleanup Fund (the "Fund"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements - modified cash basis, and have issued our report thereon dated April 5, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements - modified cash basis, we considered the Fund'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 opinion on the financial statements - modified cash basis, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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 Fund's financial statements - modified cash basis will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Management
The State of Delaware
Department of Natural Resources and
Environmental Control
Hazardous Substance Cleanup Fund

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not detected. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2022-001 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements-modified cash basis 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 Fund's Response to the Finding

Government Auditing Standards require the auditor to perform limited procedures on the Fund's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Fund's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Belfint, Lyons & Shuman, P.A.

April 5, 2023
Wilmington, Delaware

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2022

Reference Number: 2022-001

Type of Finding: Significant Deficiency

Lack of Evidence of Approval of Time for Employees Using eStar (Employee State Time & Attendance Reporting)

Condition: In our testing of payroll controls, we sampled and examined 40 individuals' pay for certain pay periods during the year. There was no evidence of supervisory review for five of the 40 individuals tested. This is a repeat finding.

Criteria: The State of Delaware's Budget and Accounting Policy Manual, Chapter 14 states: "Organizations are required to maintain and enforce effective internal controls to monitor payroll related transactions. These internal controls must include, but are not limited to, the review and approval of all wage payments, preapproval of overtime, docking and leave usage for employees."

Cause: Supervisory review was not documented in the eStar system for five individuals that were tested. Management believes that supervisors failed to indicate their review and approval by pressing an "Approve" button in the software.

Effect: For the five employees, we were unable to obtain evidence that the time had been reviewed and approved by their supervisors, before they were paid.

Recommendation: We recommend that the Fund's management reinforce effective internal controls for the review and approval of time entry, as required by the Budget and Accounting Policy Manual. We also recommend that the supervisors of the five employees who did not have approvals be trained in the proper use of the eStar Software.

Views of Responsible Officials and Planned Corrective Actions: See Corrective Action Plan on page 20.

Responsible Positions: Division Management.



STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES
AND ENVIRONMENTAL CONTROL
97 COMMERCE WAY SUITE 106
DOVER, DELAWARE 19901

Phone: (302) 739-9940

Fiscal
Management

March 20, 2023

Mr. George Fournaris
Belfint, Lyons · Shuman
1011 Centre Road, Suite 310
Wilmington, Delaware 19805

Dear Mr. Fournaris:

Upon reviewing the Draft Financial Statements and Independent Auditors' Reports for the State of Delaware, Department of Natural Resources and Environmental Control's Hazardous Substance Cleanup Fund for the period ending June 30, 2022, please see the following Management Response regarding the Significant Deficiency, Lack of Evidence of Approval of Time for Employees Using eStar:

Although the hours are reviewed by the supervisor before being submitted into eStar, we understand the significance of them being approved once entered. To ensure compliance to the State's Budget and Accounting Policy Manual, Chapter 14, we will provide training to the employees and managers involved.

Please contact me if you need any additional information.

Sincerely,

Tracey W. Parker

Tracey Parker, Financial Services Reporting & Project Coordinator
State of Delaware, Department of Natural Resources and Environmental Control
Hazardous Substance Cleanup Fund

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
SUMMARY SCHEDULE OF PRIOR AUDIT FINDING
JUNE 30, 2021

Prior Year Finding

Reference Number: 2021-001

Type of Finding: Significant Deficiency

Lack of Evidence of Approval of Time for Employees Using eStar (Employee State Time & Attendance Reporting)

Condition: In our testing of payroll controls, we sampled and examined 42 individuals' pay for certain pay periods during the year. Six of the 42 employees tested, recorded their time using the eStar system (The other employees used another platform). There was no evidence of supervisory review in the eStar system.

Criteria: The State of Delaware's Budget and Accounting Policy Manual, Chapter 14 states: "Organizations are required to maintain and enforce effective internal controls to monitor payroll related transactions. These internal controls must include, but are not limited to, the review and approval of all wage payments, preapproval of overtime, docking and leave usage for employees."

Cause: Supervisory review was not documented in the eStar system. Management believes that supervisors failed to indicate their review and approval by pressing an "Approve" button in the software.

Effect: For the six employees using the eStar software, we were unable to obtain evidence that the time had been reviewed and approved by their supervisors, before they were paid.

Current Status: See Current year finding 2022-001.