



# ACFR INTERNAL CONTROLS

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INDEPENDENT AUDITOR'S REPORT  
FISCAL YEAR ENDED JUNE 30, 2023



# ACFR INTERNAL CONTROLS

## REPORT SUMMARY FOR FISCAL YEAR ENDED JUNE 30, 2023

### BACKGROUND

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The Office of Auditor of Accounts, Delaware Department of Finance, and Division of Accounting present the Annual Comprehensive Financial Report (ACFR) Independent Auditor's Report on Internal Control, for the State of Delaware for the fiscal year ended June 30, 2023.

This ACFR Internal Control Report and findings 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. The auditing standards require the state to issue a report on the controls relied upon in the financial statement audit of the state's Annual Comprehensive Financial Report (ACFR), which was released on March 20, 2024.

Although the purpose of the ACFR is to provide financial transparency and accountability for the management of the state funds, this report is to provide information on instances of improper controls and non-compliance that were reportable to the State.

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

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### KEY INFORMATION AND FINDINGS

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CliftonLarsonAllen, LLP (CLA) issued its opinions on the State of Delaware Annual Comprehensive Financial Report (ACFR) as of and for the year ended June 30, 2023. CLA included a disclaimer of opinion in its Independent Auditors' Report on the ACFR. CLA issued the Annual Comprehensive Financial Report (ACFR) Independent Auditor's Report on Internal Control which included a Material Weakness in Internal Control over Financial Reporting for the Unemployment Insurance Trust Fund:

The Department of Labor's Division of Unemployment (DOLUI) is responsible for maintaining the books and records of the Unemployment Insurance Trust Fund, which is reported as a major enterprise fund in the State's Annual Comprehensive Financial Report (ACFR). This responsibility includes preparing a cash basis trial balance of the fiscal year end balances of the Trust Fund's accounts and providing the Division of Accounting (DOA) with support for the yearend accruals to facilitate DOA's preparation of the full accrual trial balance and the ACFR in accordance with accounting principles generally accepted in the United States of America (GAAP). In summary, the results of our audit procedures identified several material misstatements to various accounts and balances that are indicative of systemic accounting and financial reporting deficiencies in internal control, which ultimately led to a disclaimer of opinion over the Unemployment Insurance Trust Fund and Business-type Activities. The material misstatements and control deficiencies identified included Cash, Accounts Receivable, Taxes Receivable, Accounts Payable, Allowance for Doubtful Accounts, and Revenues and Expenses.

The State's ACFR examines all funds, departments, organizations, bureaus, boards, commissions, offices of elected officials and authorities that make up the state's legal entity. Individually presented component units, which are legally separate entities for which the State is financially accountable, are also included.



**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 aggregate discretely presented component units, the general fund, federal fund, local school district fund, capital projects fund, lottery fund DeIDOT fund, and the aggregate remaining fund information and we were engaged to audit the business-type activities and unemployment fund of the State of Delaware (the State), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated March 20, 2024. 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.

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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	74.0%	63.1%
General Fund	Sustainable Energy Utility, Inc.	2.4%	0.5%
Aggregate Remaining Fund Information	Delaware Public Employees' Retirement System and Delaware Other Postemployment Benefits Fund Trust	98.7%	81.3%

**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.

*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. *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.

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 identified.

We identified a certain deficiency in internal control, described in the accompanying 2023-001 that we consider to be a material weakness.

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

### **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 finding identified in our audit and described in the accompanying schedule of findings and management response. 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.

### ***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**

Baltimore, Maryland  
March 20, 2024

**State of Delaware**  
**Schedule of Findings and Management Response**  
**June 30, 2023**

**Finding 2023-001**

Department of Labor – Division of Unemployment

Finding Title: Accounting and Financial Reporting – Unemployment Insurance Trust Fund

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Repeat Finding: Yes, 2022-001 and 2022-002

***Condition***

The Department of Labor's Division of Unemployment (DOLUI) is responsible for maintaining the books and records of the Unemployment Insurance Trust Fund, which is reported as a major enterprise fund in the State's Annual Comprehensive Financial Report (ACFR). This responsibility includes preparing a cash basis trial balance of the fiscal year end balances of the Trust Fund's accounts and providing the Division of Accounting (DOA) with support for the yearend accruals to facilitate DOA's preparation of the full accrual trial balance and the ACFR in accordance with accounting principles generally accepted in the United States of America (GAAP).

In summary, the results of our audit procedures identified several material misstatements to various accounts and balances that are indicative of systemic accounting and financial reporting deficiencies in internal control, which ultimately led to a disclaimer of opinion over the Unemployment Insurance Trust Fund and Business-type Activities. The following details the material misstatements and control deficiencies identified:

**Cash**

Procedures are not in place to reconcile cash on a monthly basis between the book balance to the bank balance, rather all year end cash accounts were adjusted to agree to the June 30 bank statements. Procedures are not in place to ensure bank accounts opened are included in the general ledger system. Four bank accounts were discovered by external consultants to have been opened in DOLUI's name during the prior fiscal year. Only one of these accounts was included in the current fiscal year's yearend trial balance, despite knowledge of these accounts. Procedures are not in place to monitor and regularly update authorized signers on DOLUI's bank accounts.

**Accounts Receivable/ Taxes Receivable/ Accounts Payable**

Procedures are not in place to reconcile these account balances on a monthly basis. System generated reports do not agree to the amounts reported on the trial balance, in some cases these variances were significant. Various system generated reports also did not agree to each other making it difficult to rely on any of the information. Some account balances on the trial balance were not able to be supported by detailed reports, DOLUI was unsure if those account balances were accurately stated or not. In relation to the significant cash account that was not recorded, DOLUI noted a corresponding payable account should have also been reported but was not, resulting in an understatement of liabilities.

### Allowance for Doubtful Accounts

DOLUI does not currently have an established method for calculating allowance for doubtful accounts. DOLUI is not following the previously established methodology for calculating their allowance for doubtful accounts, as the system generated reports do not agree to the trial balance. Their external consultants estimated an allowance amount for the current fiscal year.

### Revenues and Expenses

Due to the above-mentioned issues in the balance sheet accounts, we were unable to gain comfort over the income statement amounts reported in the trial balance.

### **Criteria**

Management is responsible for the preparation and fair presentation of the ACFR in accordance with GAAP. Further, internal control, as defined by auditing standards generally accepted in the United States of America (U.S. GAAS), is a process effected by management and other personnel that is designed to provide reasonable assurance about the achievement of an entity's objectives with regard to the reliability of financial reporting. It is also critical that internal controls are implemented and performed on a timely basis to ensure reliability of financial reporting.

### **Effect**

As identified above, material errors were detected through the audit process due to a pervasive lack of internal controls over the financial reporting process, leading to a disclaimer of opinion over the Unemployment Insurance Trust Fund and Business-type Activities. These issues also resulted in a delay in issuing the State's ACFR by December 31, 2023.

### **Cause**

Various factors contributed to the cause of the finding. DOLUI has had a substantial amount of employee turnover in the last few years, resulting in a loss of a significant amount of institutional knowledge and a lack of adequate staffing in place to complete required accounting work, including account reviews and reconciliations, on a timely basis. Additionally, the accounting system used by the Unemployment Trust Fund is an antiquated system and due to turnover at the Department there is a lack of knowledge about the system and how to generate reports. Therefore it has become difficult to produce user friendly information out of this system on a timely basis for account reconciliations and review.

### **Recommendation**

We recommend that the DOLUI continue to work with external consultants to reconcile account balances and establish documented policies and procedures to continue these accounting practices into the future. They should also ensure adequate staffing is in place for the required workload in order to be able to keep up a timely 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.

***Views of Responsible Officials and Corrective Actions***

Management concurs with the findings. Due to significant staff turnover and knowledge loss within the Department of Labor Unemployment Division, standard processes were not completed in a timely manner, thus resulting in the identified deficiencies. The State's Department of Finance Division of Accounting engaged an external accounting firm to assist with the identified deficiencies.

The tasks assigned to this firm include the reconciliation efforts for fiscal year 2023, detailed accounting processes for fiscal year 2024, the development of policies and procedures to enhance future workflow processes and provide training to staff. This project commenced on February 7, 2024. The Department of Labor is committed to working with the outside partner to resolve all deficiencies and improve processes for future years. We estimate reconciliation efforts for fiscal year 2023 to be completed by May 30, 2024, and the fiscal year 2024 efforts to be completed by August 30, 2024 to ensure a timely fiscal year 2024 audit.

***Responsible Official:***

Darryl Scott, Director, Division of Unemployment Insurance

***Implementation Date:***

May 30, 2024