



**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, 2020, 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 24, 2020. 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%
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	84%	72%
General Fund	Sustainable Energy Utility, Inc.	4%	0%
Aggregate Remaining Fund Information	Delaware Public Employees' Retirement System and Delaware Other Postemployment Benefits Fund Trust	99%	100%

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### **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 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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify 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 responses as item 2020-001 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 responses as item 2020-002 to be a significant deficiency.

### **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 of Delaware's Response to Findings**

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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 them.

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**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.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Baltimore, Maryland  
December 24, 2020

**State of Delaware**  
**Schedule of Findings and Management Response**  
**June 30, 2020**

**Material Weakness**

**Finding 2020-001 – Unemployment Fund – Audit Adjustments**

***Condition***

We discovered material misstatements which required adjustment and were identified after the records were provided for audit. These included entries related to various accounts including intergovernmental receivables, claims payable, due to other governments and federal grants revenue.

***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***

The COVID-19 pandemic caused an increased volume of claims to be accrued for at year end and related receivables. Management did not consider this increased volume of unprocessed claims at year end when calculating the claims payable amount. Additionally, audit adjustments were required to properly state various account balances.

***Effect***

Certain adjustments were required to be made to the accounting records subsequent to the start of the audit process.

***Cause***

This was primarily due to significantly higher claims volume during 2020 than normal. The COVID-19 pandemic caused this increased volume of claims to be accrued for at year end and related receivables and hindered completion and review in a timely manner. Management did not consider the increased volume of unprocessed claims at year end when calculating the claims payable amount. In addition, the review of account reconciliations did not identify adjustments that were needed to properly state various account balances.

***Recommendation***

We recommend that the Department of Labor 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. For many years, the Department of Labor (DOL) annually engaged an actuary to calculate the liability for unprocessed claims at year-end. Since the discontinuance of this actuarial study, DOL has not formalized a process to complete this calculation in-house due in large part to the separation of the claim records from the accounting functions. For the past several years, this calculation has been completed based on claims paid subsequent to year end. The COVID-19 pandemic resulted in significantly higher claims with unresolved claims continuing for months. Since the accounting team does not have access to the claim records, there was no accrual for the unresolved claims. DOL is evaluating the need to reengage the actuary to provide the claims liability or determine an in-house method to accurately record this liability.

## **Significant Deficiency**

### **Finding 2020-002 – Unemployment Insurance Cash**

#### ***Condition***

In the reporting of cash and cash equivalents, the Department of Labor's (DOL) reconciled book balance on the bank reconciliation did not agree to the balance recorded in the general ledger.

#### ***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***

The variance in the amount of \$113,466 was not noted during DOL's reconciliation process.

#### ***Effect***

The financial statements contain an immaterial overstatement statement of cash and cash equivalents and the State passed on making the proposed audit adjustment.

#### ***Cause***

The DOL was informed of a similar variance during the 2019 audit. The DOL's internal controls over the bank reconciliation and financial reporting processes failed to remedy the deficiency communicated to them in the prior year. Additionally, DOL failed to identify that the variance between the reconciled book balance and general ledger was an error requiring correction during their reviews of bank reconciliations during 2020.

#### ***Recommendation***

We recommend that policies and procedures be improved to ensure that internal controls over the bank reconciliation and financial reporting processes are thorough and performed by personnel with proper experience in order to identify and correct errors and misstatements.

#### ***Management Response***

Management concurs with the finding. As a result of significant turnover and the increased workload caused by the COVID-19 pandemic, DOL employees did not have the time or expertise to investigate unreconciled differences. DOL has since hired additional employees and is currently recruiting additional accountants and providing training to new and existing employees on proper reconciliation procedures and investigation of unreconciled differences. DOL management will provide oversight to ensure reconciliations are accurately completed with all unreconciled differences resolved each month.