



Department of Natural Resources and Environmental Control

HAZARDOUS SUBSTANCE CLEANUP FUND

Financial Statement Audit for
Fiscal Year 2021



Kathleen K. McGuinness, RPh, CFE
Delaware State Auditor



KATHLEEN
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DELAWARE
STATE AUDITOR

*Department of Natural Resources
and Environmental Control
Hazardous Substance Cleanup Fund
Financial Statement Audit
for Fiscal Year 2021*

What Was Performed? A financial statement audit of the Delaware Department of Natural Resource and Environmental Control's Hazardous Substance Cleanup Fund for Fiscal Year 2021.

Why This Engagement? In July 1990, the General Assembly passed legislation establishing the Delaware's Hazardous Substance Cleanup 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. This engagement was performed in accordance with 29 Del. C. § 2906.

The fund generated over \$8 million in revenue in FY21 but accrued liabilities of over \$13 million. 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.

What Was Found? It is my pleasure to report this audit contained an unmodified opinion¹ on the financial statements. However, it contained one finding related to payroll internal controls. Six of 42 employee records sampled showed no evidence of supervisory review and approval prior to being paid. It is recommended that the fund's management reinforce effective internal controls in accordance with the Budget and Accounting Policy Manual. Additionally, the supervisors of the six employees identified should be retrained in the proper use of the agency's time-management software.

The Delaware Department of Natural Resources and Environmental Control, Hazardous Substance Cleanup Fund Financial Statement Audit for Fiscal Year ended June 30, 2021, can be found on our website at auditor.delaware.gov.

Please do not reply to this email. For any questions regarding the attached report, please contact State Auditor Kathleen K. McGuinness at Kathleen.Mcguinness@delaware.gov.

¹ An unmodified opinion is sometimes referred to as a "clean" opinion. It is one 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.

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 Financial Statements

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, 2021, and the related Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis and the related notes to the financial statements.

Management's Responsibility 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; this includes 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' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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 Fund'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 Fund'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 opinion.

Opinion

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, 2021, 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 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 present only the State of Delaware Department of Natural Resources and Environmental Control, Hazardous Substance Cleanup Fund and do not purport to, and do not present fairly the financial position of the State of Delaware, as of June 30, 2021, 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.

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

Other Matters

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 schedule of revenues, expenditure, and change 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.

The schedule of revenues, expenditure, and change in fund balance by account - modified cash basis 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 schedule of revenues, expenditure, and change 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 February 28, 2022, 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.

February 28, 2022
Wilmington, Delaware

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
BALANCE SHEET - MODIFIED CASH BASIS
JUNE 30, 2021

ASSETS

Pooled Cash

\$ 16,341,949

FUND BALANCE

Restricted by Enabling Legislation

\$ 16,341,949

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, 2021

REVENUES	
Tax Assessments	\$ 7,536,183
Cost Recovery	292,665
Voluntary Cleanup	347,021
Interest	265,099
Other	<u>166,404</u>
TOTAL REVENUES	8,607,372
EXPENDITURE	
Cleanup Program	<u>13,494,494</u>
NET CHANGE IN FUND BALANCE	(4,887,122)
FUND BALANCE - Beginning of Year	<u>21,229,071</u>
FUND BALANCE - End of Year	<u><u>\$ 16,341,949</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, 2021

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 B, these

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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 disbursed from 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
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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.

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.

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 3: POOLED CASH - CONTINUED

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 1.0429% with regard to gross receipts received before January 1, 2021. Beginning January 1, 2021, the tax levy is .9067%.

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.

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 4: REVENUES - CONTINUED

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 2,857 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), 559 sites have entered the program; 473 sites are currently undergoing cleanup; and 2,384 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 416 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 1,253 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, 2021, under this lease was \$380,737.

Future minimum lease payments under cancelable operating leases as of June 30, 2021, for the Fund are as follows for the years ending June 30:

2022	\$	383,685
2023		393,482
2024		405,598
2025		418,240
2026		428,448
Thereafter		<u>1,996,040</u>
Total	\$	<u><u>4,025,493</u></u>

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

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 \$486,977 on total wages of \$2,231,616 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.
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.

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
JUNE 30, 2021

NOTE 7: EMPLOYEE BENEFITS - CONTINUED

6. Contributions

- a. Employer - Determined by Board of Pension Trustees. Required to contribute 12.33% of its gross payroll for 2021.
- 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.

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.

NOTE 9: COVID-19 PANDEMIC

The Fund expects economic uncertainties resulting from the COVID-19 pandemic. However, the related financial impact and duration cannot be reasonably estimated at this time.

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, 2021

	<u>Administrative Account</u>	<u>Cleanup Fund</u>	<u>Voluntary Cleanup Fund</u>	<u>Brownfields Program</u>	<u>Total</u>
REVENUES					
Tax Assessments	\$ -	\$ 5,024,123	\$ -	\$ 2,512,060	\$ 7,536,183
Cost Recovery	10,515	263,301	-	18,849	292,665
Voluntary Cleanup	-	-	347,021	-	347,021
Interest	-	128,030	9,039	128,030	265,099
Other	35,927	130,477	-	-	166,404
TOTAL REVENUES	46,442	5,545,931	356,060	2,658,939	8,607,372
EXPENDITURE					
Cleanup Program	1,931,641	7,296,298	230,258	4,036,297	13,494,494
NET CHANGE IN FUND BALANCE	(1,885,199)	(1,750,367)	125,802	(1,377,358)	(4,887,122)
FUND BALANCE - Beginning of Year	(9,514,011)	26,777,024	680,932	3,285,126	21,229,071
FUND BALANCE - End of Year	<u>\$ (11,399,210)</u>	<u>\$ 25,026,657</u>	<u>\$ 806,734</u>	<u>\$ 1,907,768</u>	<u>\$ 16,341,949</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, 2021, 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 February 28, 2022.

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. 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 2021-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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 Fund's Response to the Finding

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 it.

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.

February 28, 2022
Wilmington, Delaware

STATE OF DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND
ENVIRONMENTAL CONTROL
HAZARDOUS SUBSTANCE CLEANUP FUND
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2021

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.

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 six 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 18.

Responsible Positions: Division Management.



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

Fiscal
Management

Phone: (302) 739-9940

January 27, 2022

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, 2021, 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 Parker

Tracey Parker, Manager Support Services
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 - None Reported