State of Delaware

Basic Financial Statements

For the Fiscal Year Ended June 30, 2011

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State of Delaware
Basic Financial Statements
For the Fiscal Year Ended June 30, 2011
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Independent Auditor's Report

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

We have audited the accompanying 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, 2011, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position 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, as of June 30, 2011, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1(b) to the financial statements, the State adopted Governmental Accounting Standards Board Statement (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* during fiscal year 2011.

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In accordance with *Government Auditing Standards*, we have also issued our report dated February 6, 2012, on our consideration of the State'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required supplementary information listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

February 6, 2012

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's (the State's) financial activities as of and for the fiscal year ended June 30, 2011. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages i-vi of this report, and the State's financial statements, which follow this section.

These financial statements have been prepared using the financial accounting model adopted by the Governmental Accounting Standards Board (GASB).

Financial Highlights

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by $5,378.7 million (net assets). Component units reported net assets of $788.7 million, an increase of $13.6 million from the previous year.

- As a result of its operations, the primary government's total net assets increased by $176.1 million (3.4%) in fiscal year 2011 when compared to the previous year's ending net assets. Net assets of governmental activities increased by $116.8 million (5.2%) from the previous year, while net assets of the business-type activities increased $59.4 million (2.0%) from the previous year.

- The State's governmental funds reported combined ending fund balances of $1,792.4 million, an increase of $369.7 million (26.0%) in comparison with the prior year.

- The general fund reported unassigned fund balance of $842.5 million which was 21.3% of total general fund expenditures.

- The State's total general obligation debt increased $115.3 million (7.7%) during fiscal year 2011 to $1,612.6 million. Of the State's outstanding debt, $536.0 million (33.2%) has been issued on behalf of local school districts, which is supported by the property tax revenues of those districts.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information and other supplementary information, in addition to the basic financial statements.

Government-wide financial statements The government-wide financial statements are designed to provide readers with a broad overview of the State's operations, in a manner similar to a private sector business.

The statement of net assets presents information on all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event that created the change occurs, regardless of the timing of related cash flows. As a result, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include general government, health and children's services, judicial and public safety, natural resources and environmental control, labor and education. The business-type activities of the State include transportation, lottery and unemployment services.

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State is financially accountable. These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University, the Delaware Technical and Community College Educational Foundation and 22 charter schools. Financial information for these component units is reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 21-23 of this report.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of available resources on hand at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The State's governmental funds include the general, federal, local school district, and capital projects funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance (deficit) for these funds.

The basic governmental funds financial statements can be found on pages 24 - 27 of this report.

The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or the Special Fund. References to these funds in this report include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State adopts an annual appropriated budget for its budgetary general fund. A budgetary comparison statement has been provided for the budgetary general fund to demonstrate compliance with the budget. The schedule can be found on page 128 of this report.

Proprietary funds Proprietary funds charge customers for the services they provide – whether they are provided to outside customers (enterprise funds) or other State agencies and other governments (internal service funds). Proprietary funds provide the same type of information as the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the Lottery, Unemployment Insurance Trust Fund and the Delaware Department of Transportation (DelDOT), all of which are considered to be major funds of the State.

The State uses proprietary funds to account for operations of the Unemployment Insurance Trust Fund, Delaware State Lottery (Lottery), and DelDOT as business-type activities in the government-wide financial statements. The State does not maintain any internal service funds.

The basic proprietary fund financial statements can be found on pages 28 - 30 of this report.

Fiduciary funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The pension, other post-employment benefit, and investment trust funds are the primary fiduciary funds for the State. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 31 - 32 of this report. Combining fiduciary fund statements can be found on pages 136 - 142.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36 - 123 of this report.

Required supplementary information In addition to the basic financial statements and accompanying notes, this report presents certain Required Supplementary Information (RSI) concerning the status of the State's legally adopted budget, the maintenance of the State's infrastructure and additional schedules related to funding status and progress, annual pension costs and actuarial methods and assumptions for the State's pension trusts. The RSI can be found on pages 125 - 137 of this report.

Other supplementary information Other supplementary information includes the introductory section, the combining financial statements for fiduciary and local school funds, and the statistical section.

Statewide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's assets exceeded its liabilities by $5,378.7 million at the close of the most recent fiscal year.

The largest portion of the State's net assets (86.8%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related outstanding debt used to acquire those assets. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets, comprising 6.7% of total net assets, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion, unrestricted net assets (6.5%), may be used at the State's discretion; however, some of these funds have been appropriated based on State statutes.

Condensed Financial Information - Primary Government
As of June 30, 2011
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other non-current assets	$ 2,964,936	$ 2,406,051	$ 644,226	$ 532,782	$ 3,609,162	$ 2,938,833
Capital assets	3,528,015	3,416,605	3,943,634	3,899,468	7,471,649	7,316,073
Total assets	6,492,951	5,822,656	4,587,860	4,432,250	11,080,811	10,254,906
Long-term liabilities outstanding	3,274,314	2,823,441	1,296,406	1,239,200	4,570,720	4,062,641
Other liabilities	845,853	743,208	285,553	246,516	1,131,406	989,724
Total liabilities	4,120,167	3,566,649	1,581,959	1,485,716	5,702,126	5,052,365
Net assets:						
Invested in capital assets, net of related debt	1,831,490	1,799,599	2,840,595	2,803,634	4,672,085	4,603,233
Restricted	186,430	186,430	173,445	137,831	359,875	324,261
Unrestricted	354,864	269,978	(8,139)	5,069	346,725	275,047
Total net assets	$ 2,372,784	$ 2,256,007	$ 3,005,901	$ 2,946,534	$ 5,378,685	$ 5,202,541

The capital assets of the governmental activities increased $111.4 million (3.3%) since June 30, 2010. Increases are a result of significant renovations to, and expansions of, existing school buildings across all counties to accommodate the rise in student population.

The increase in current and other non-current assets of governmental activities was primarily due to a decrease in capital projects fund spending and the October 28, 2010 bond issuance causing a increased balance for the cash and investments of about $399.4 million. Receivables increased due to the issuance of more loans during the fiscal year and expected receipts from the federal government for a combined increase of $202.3 million. These increases were partially offset by the release of the prepaid refunding payment to the escrow agent for $34.6 million in defeased debt.

The increase in governmental activities long-term liabilities outstanding of $450.9 million (16.0%) is primarily due to an increase in the other post employment benefits liability. At June 30, 2011, the long-term obligation for OPEB was $1,204.1 million, an increase of $298.0 million (32.9%) from fiscal year 2010. The OPEB obligation will increase each year as the State continues to defer full funding of its annual required contribution. Additional information for the OPEB obligation can be found in Note 14 of the financial statements.

In addition, the general obligation long term debt increased by $123.3 million (8.4%) from fiscal year 2010. The State's debt as a percentage of the State's personal income was 7.5% in fiscal year 2010 and 8.0% in fiscal year 2011. The State's debt burden reflects its centralized role in financing facilities, such as schools and prisons, which in other states receive capital through local entities.

The increase in business-type current assets was primarily attributable to excess cash and cash equivalents on hand as a result of delays in DelDOT's capital projects. The delays also resulted in a decrease in capital spending during fiscal year 2011. This information can be found on page 2 of the DelDOT's financial statements as of and for the year ended June 30, 2011.

The cash and cash equivalents balance for the Unemployment trust fund also increased due to a decrease in benefits paid during the fiscal year.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects the changes in net assets during the fiscal year.

Changes in Net Assets - Primary Government
For Year End June 30, 2011
(Expressed in Thousands)

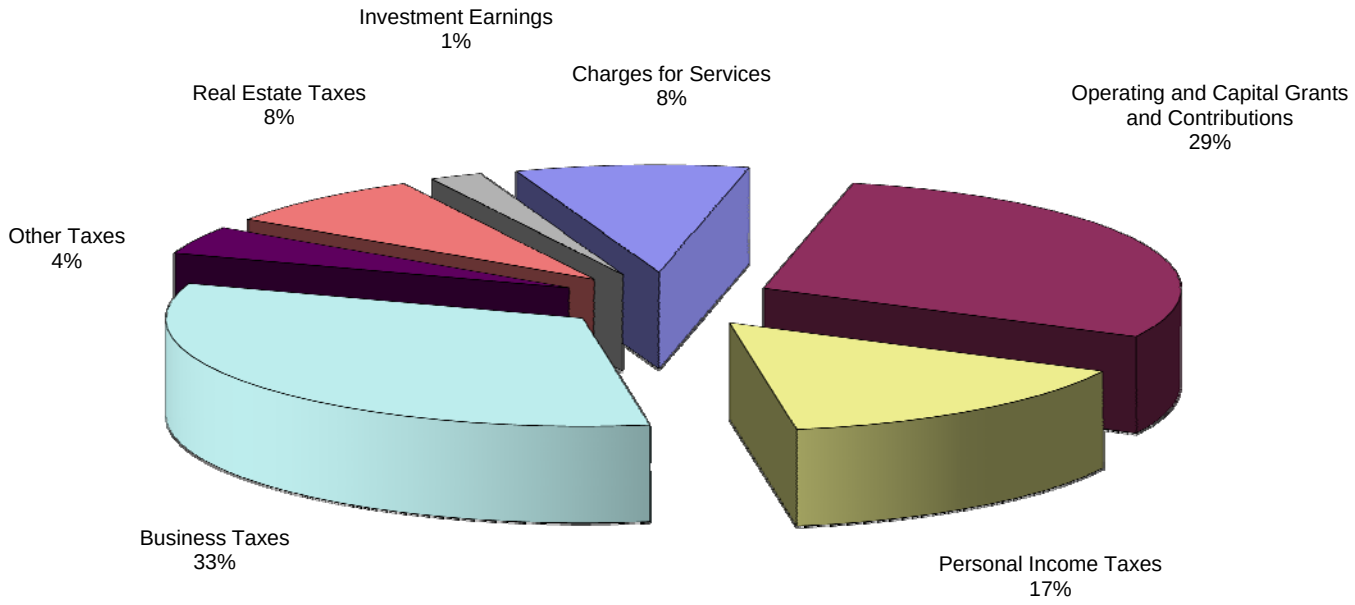
	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues:						
Charges for services	$ 475,026	$ 453,202	$ 1,290,650	$ 1,236,049	$ 1,765,676	$ 1,689,251
Operating grants and contributions	1,735,026	1,460,903	170,681	196,889	1,905,707	1,657,792
Capital grants and contributions	-	30,861	195,030	238,276	195,030	269,137
General revenues:						
Taxes:						
Personal income taxes	986,002	760,617	-	-	986,002	760,617
Business taxes	1,926,473	1,820,023	-	-	1,926,473	1,820,023
Real estate taxes	456,772	434,718	-	-	456,772	434,718
Other taxes	246,268	250,630	-	-	246,268	250,630
Investment income (loss)	28,356	20,185	2,815	(15,336)	31,171	4,849
Gain (loss) on sale of assets	-	-	587	(415)	587	(415)
Miscellaneous	29,201	15,546	(1,000)	(1,000)	28,201	14,546
Total revenues	5,883,124	5,246,685	1,658,763	1,654,463	7,541,887	6,901,148
Expenses:						
General Government	660,931	436,025	-	-	660,931	436,025
Health and Children's Services	2,186,189	2,059,215	-	-	2,186,189	2,059,215
Judicial and Public Safety	596,764	624,565	-	-	596,764	624,565
Natural Resources and Environmental Control	189,301	148,776	-	-	189,301	148,776
Labor	74,063	74,163	-	-	74,063	74,163
Education	2,304,468	2,146,258	-	-	2,304,468	2,146,258
Interest Expense	75,522	55,782	-	-	75,522	55,782
Lottery	-	-	384,611	353,449	384,611	353,449
Transportation	-	-	593,632	626,012	593,632	626,012
Unemployment	-	-	300,262	379,065	300,262	379,065
Total expenses	6,087,238	5,544,784	1,278,505	1,358,526	7,365,743	6,903,310
Increase (decrease) in net assets before transfers	(204,114)	(298,099)	380,258	295,937	176,144	(2,162)
Transfers	320,891	335,880	(320,891)	(335,880)	-	-
Increase (decrease) in net assets	116,777	37,781	59,367	(39,943)	176,144	(2,162)
Net assets - beginning of year	2,256,007	2,218,226	2,946,534	2,986,477	5,202,541	5,204,703
Net assets - end of year	$ 2,372,784	$ 2,256,007	$ 3,005,901	$ 2,946,534	$ 5,378,685	$ 5,202,541

Governmental activities Since fiscal year 2010, the net assets for governmental activities increased by $116.8 million, while the net assets for business-type activities increased by $59.4 million. A comparison of the cost of services by function for the State's governmental activities is shown in the following chart, along with the revenues used to cover the net expenses of the governmental activities. Key elements of the increase in the State's governmental activities net assets are as follows:

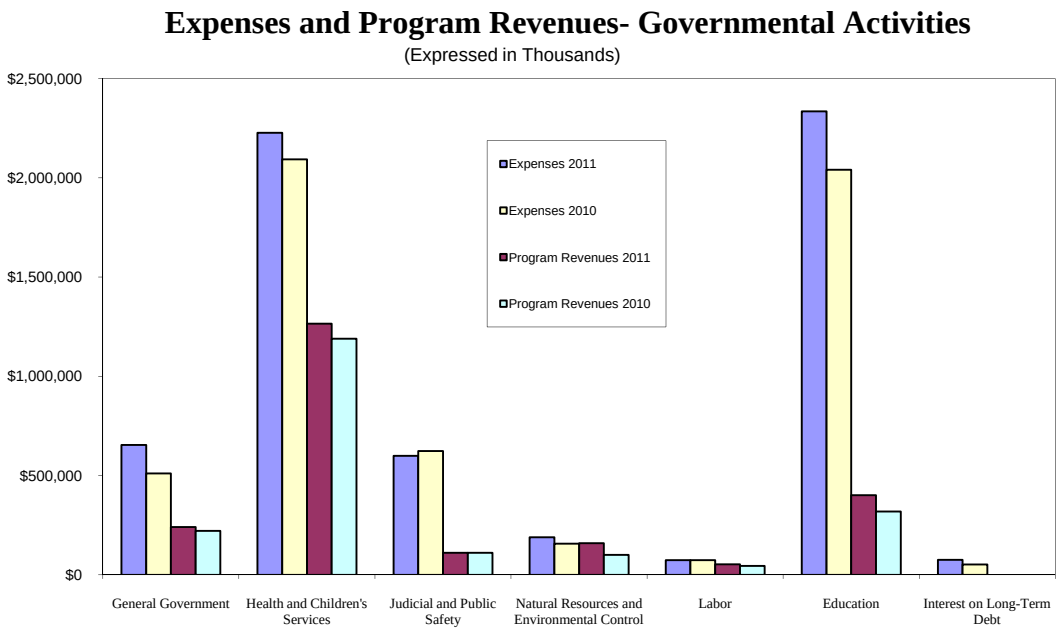
Total general revenues increased overall by $356.4 million (9.8%) relating to increases in net personal income taxes of $225.4 million, business taxes of $102.1 million, real estate taxes of $30.0 million and investment earnings of $8.2 million. The increases in the tax revenue were primarily attributable to the first full year of an increase in the personal income tax rate, and the upswing in the economy which improved business profits and franchise taxes. Additionally, the business taxes increased due to improved tax administration and increased enforcement collections.

Program revenues increased by $265.1 million (13.6%) from the prior year primarily due to an increase in operating grants of $274.1 million. Health and Social Services received $147.6 and Education received $90.4 million more in operating grants due to awards of additional federal programs. Additionally, Natural Resources and Environmental Control (DNREC) received more federal energy program revenue over fiscal year 2010 which resulted in an increase of $20.9 million in operating grant revenue. Also, charges for services increased by $21.8 million over the prior fiscal year, of this increase, $36.5 million was due to increased charges relating to licenses, fines, fees and permits at DNREC.

Revenues by Source – Governmental Activities



Expenses for governmental activities increased during fiscal year 2011 by $542.5 million (9.8%). Approximately $226.3 of the increase is due to the reinstatement of salary cuts from the previous fiscal year and payment to the refunding agent from the prior year's prepayment of refunded debt as reflected in general government. The increase in governmental activities is also due to the increased spending of $127.0 million at Health and Children's Services as a result of a general increase in the population served and rising health care costs. Educational expenses also increased by $158.2 million due to the continued increase in student population resulting in additional personnel and other operating costs.



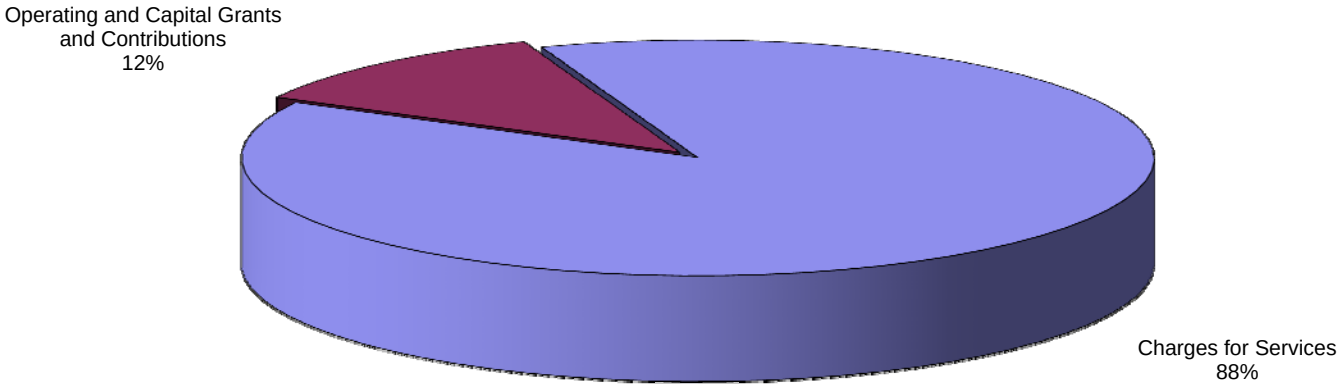
Business-type activities The net assets for business-type activities increased by $77.8 million in fiscal year 2011. This increase is comprised of a $65.4 million increase in net assets for DelDOT and a $12.4 million decrease in the Unemployment Insurance Trust Fund.

The decrease of $12.4 million in Delaware Unemployment Insurance Trust Fund net assets is due to the expiration of certain limited benefits and is reflected in the decrease in benefits paid by the Trust Fund. There was a decrease in operating revenues and operating expenses of $28.6 million and $80.1 million, respectively.

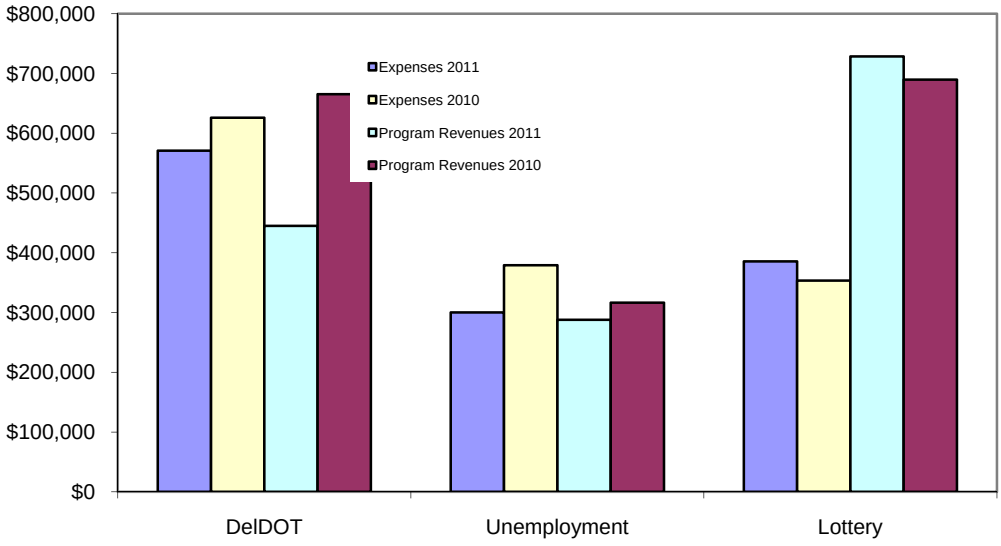
DelDOT's net assets at June 30, 2011 were $71.7 million higher than at June 30, 2010. DelDOT's total operating revenues increased by $18.2 million (4.3%) while operating expenses decreased by $34.9 million (6.0%). The change in net assets is primarily attributable to an increase in motor vehicle and related revenues as a result of increased auto sales. The delay in capital spending has decreased total operating expenses.

There was no change in the Lottery's net assets. By law, the Lottery's net assets cannot exceed $1.0 million. Revenue for the Lottery increased by $38.9 million (5.6%) over last year mainly due to a $71.2 million increase in table games and an increase in fees of $13.5 million which were offset by a decrease in video lottery sales of $48.2 million. The Lottery transferred $342.9 million in gaming revenues to the State, an increase from fiscal year 2010 of $8.3 million. The total costs of games and prizes increased by $29.7 million (8.6%) over the previous year due to the increase in table game activity.

Revenues by Source – Business-type Activities



Expenses and Program Revenues – Business-type Activities



Financial Analysis of the State's Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the State's financing requirements. Unassigned fund balances may serve as a useful measure of a government's net resources at the end of the fiscal year.

During the current fiscal year, the State adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*. The Statement establishes fund balance classifications that comprise a hierarch based primarily on the extent to which a government is bound to observe constrains imposed upon the use of the resources reporting in the governmental funds. This is further described in note 1 and note 16 of the financial statements.

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $1,792.4 million, an increase of $369.7 million over the prior year.

Of this amount, $9.8 million is nonspendable (less than 1%), either due to its form or legal constraints, and $738.3 million or 41.2 % is restricted for specific programs by external constrains, constitutional provision or contractual obligations. An additional $201.8 million or 11.3 % has been assigned to specific purposes by management. The remaining $842.5 million or 47.0% of fund balance is unassigned.

General fund The general fund accounts for the operation and administration of the State. Total general fund balance increased by $200.9 million for the fiscal year.

Total general fund revenues increased by $277.5 million (8.0%) due to several factors. The main increases were in personal taxes which increased by $242.2 million and business taxes which increased by $106.5 million. This was partially due to a full year of tax increases, upswing in the economy which increased business profits which then increased corporate taxes, and improved tax administration and improved enforcement efforts. Also, there was an $85.7 million increase in rental and sales income due to an increase in tuition and other sales during the year. However, the increases were offset by the decrease in other revenue of $99.9 million and licenses, permits, fines and fees of $65.1 million.

Total general fund expenditures increased by $218.8 million (5.8%). This was primarily due to decreases in Health and Children's Services of $58.4 million, General Government of $74.6 million, Public Safety of $28.4 million, Education of $36.0 million and Natural Resources and Environmental Control of $16.3 million. The increase in expenditures for Health and Children's Services, General Government, Public Safety, Education, and Natural Resources and Environmental Control, were attributable to the decrease in the federal funding from the stimulus package.

At the end of the current fiscal year, unassigned fund balance of the general fund was $842.5 million, while total fund balance reached $1,397.3 million.

Federal funds Federal funds represent pass through grants used for designated purposes. These funds report federal grant revenues and the related expenditures to support the State's grant programs. Total federal fund revenues and expenditures increased by $221.9 million and $71.4 million, respectively. The primary increase in federal revenues was due to the Race to the Top program administered by Education and additional funding for the Medicaid and supplemental program administered by Health and Children's Services. The largest portion of this increase in expenditures is in Health and Children's Services, which accounted for $74.0 million (5.0%), resulting from increased costs in the Medical Assistance and the Temporary Assistance for Needy Families programs. Also, continued spending on energy programs by the Department of Natural Resources and Environmental Control increased expenditures by $5.2 million.

Local School funds These funds are used to account for activities relating to the State's local school districts, which are funded by locally raised real estate taxes and other revenues. The fund balance increased by $29.9 million to $338.3 million. Spending increased because of operating costs no longer covered by federal funds from the stimulus package funding fully utilized in the prior year.

Capital Project funds Capital Project funds are used to account for the construction and acquisition of capital assets of the primary government. Capital outlay expenditures totaled $195.4 million in fiscal year 2011, a decrease of $45.6 million. State legislation authorizes certain capital project expenditures prior to the issuance of bonds in an aggregate amount not to exceed 3% of general fund revenue.

Proprietary funds The State's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the Lottery, Unemployment Insurance Trust Fund and the DelDOT Fund, all of which are considered to be part of the primary government and major funds of the State.

Total proprietary funds net assets increased in fiscal year 2011 by $65.4 million as a result of operations. Page 12 discusses the changes in net assets of the business-type activities.

General Fund Budgetary Highlights

The budgetary general fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance increased by $260.7 million (48.4%). Revenues were $296.4 million (9.2%) higher than the previous fiscal year. This was primarily due to increases in personal income tax collections of $144.1 million (16.9%), corporate income tax of $80.3 million (91.4%), bank franchise tax of $71.2 million (151.5%), and insurance tax of $11.0 million (26.6%). Offsetting these revenue increases were decreases in abandoned property of $67.9 million (14.2%), corporate franchise tax of $18.6 million (2.9%) and hospital board and treatment of $4.2 million (5.6%). While the State's revenue performance reflected a modest recovery in the U.S.

economy, collections were bolstered by the first full-year of rate increases in the personal income and gross receipts taxes as well as record business tax enforcement collections.

Expenditures were $194.2 million (6.3%) more than the previous fiscal year. Salaries and wages increased by $45.4 million (3.9%). Grants-in-Aid increased by $50.7 million (18.3%) while Medicaid increased by $37.6 million (8.8%). In addition, contractual services decreased by $1.2 million (0.3%) and capital outlays increased by $6.3 million (31.3%). Debt service payments decreased by $4.8 million (2.8%).

The original budget authorizes current fiscal year operating and administrative expenditures. Included in the final budget are the original budget, prior year encumbrances, multi-year project budgetary carry-forwards from the prior fiscal years, and all modifications to the original budget. The most significant components are the original budget and carry-forwards of prior fiscal year. The unused appropriations from a prior year will carry forward to the final budget for authorized capital projects and grants until the funds are spent. This was the case for the Medicaid program at Department of Health and Social Services and the Education services for Department of Education.

Actual expenditures were within the final budget in all departments, with significant favorable budget variances in the following departments:

- $150.4 million in the Executive Department for funds budgeted, but not spent on an ongoing capital improvement projects, technology projects, and contingency items;
- $30.0 million in the Department of Education for funds budgeted, but not spent on educational projects such as the statewide testing program to assist the State with compliance of the No Child Left Behind Act;
- $15.1 million in Department of Corrections for expenditures authorized in the final budget but not spent on medical services and various minor capital projects:
- $106.0 million in the Department of Health and Social Services, as well as $10.9 million in the Department of Children, Youth and Their Families for programs that have been rendered but not yet billed such as Medicaid and Delaware Healthy Children Program costs.

Funded projects, which are not completed by year-end, may carry over unspent funds into fiscal year 2011. Unspent funds are reflected in the final budget which may cause variances from original budget.

Capital Assets and Debt Administration

Capital assets The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2011, amounted to $7,471.6 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total increase in capital assets for governmental activities was $111.4 million (3.2%) and the increase for business-type activities was $44.2 million (1.1%).

Major capital asset acquisitions during the current fiscal year included the following:

- Completion of new schools and renovations of existing schools of $188.7 million. In addition, construction-in-progress for governmental activities was $201.0 million as of June 30, 2011. Approximately 60.9% of this total is related to the building of new schools and improvements to existing schools across all counties, with the majority of spending occurring in New Castle County.
- The increase in business-type activities is due to increased spending at DelDOT for the US 301 toll road project.

As allowed by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the State has adopted an alternative process for recording expense related to selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 4,360 center line miles of roads and 1,562 bridges that the State is responsible to maintain.

DelDOT performs condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every two years. Historically, road condition assessments were conducted every year. Recent changes to the road condition vendor contract have resulted in the inability to provide infrastructure ratings for fiscal year 2010. The Department's assessment plan will ensure that all infrastructure assets are assessed and evaluated within the three-year period, as required.

Of the State's 1,562 bridges that were rated in fiscal year 2010, 72.8% received a good or better Bridge Condition Rating (BCR) rating, 20.0% were rated fair, and 7.2% received a substandard rating. Of the 7,341,988 square feet of bridge deck that was rated, 91.1% or 6,685,282 square feet received an Overall Pavement Condition (OPC) condition rating of good or better, 8.8% received a fair rating, and 0.1% received a substandard deck rating. In 2009, 4,360 center line miles were rated; 91.7% received a fair or better OPC rating and 8.3% received a poor rating.

The fiscal year 2011 estimate to maintain and preserve DelDOT's infrastructure was $134.3 million, but the actual expenditures were $252.6 million, which is $118.3 million over the estimate. The estimated expenditures represent annual bond bill authorizations and the actual expenditures represent the current year spending, which includes cumulative authorizations.

Additional information on the State's capital assets can be found in Note 1 on pages 39 - 47, Note 12 on pages 95 - 98 and on pages 128 – 129 in the Required Supplementary Information.

A summary of the State's primary government's capital assets, net of depreciation is provided below:

State of Delaware Capital Assets as of June 30, 2011
Net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	$ 440,129	$ 427,496	$ 276,761	$ 276,761	$ 716,890	$ 704,257
Land improvements	147,656	79,332	-	-	147,656	79,332
Buildings	2,383,096	2,215,317	70,029	65,749	2,453,125	2,281,066
Easements	274,871	256,653	-	-	274,871	256,653
Equipment and vehicles and computer software	81,243	37,963	115,768	124,279	197,011	162,242
Infrastructure	-	-	3,481,075	3,432,677	3,481,075	3,432,677
Construction-in-progress	201,020	399,844	-	-	201,020	399,844
Total	$ 3,528,015	$ 3,416,605	$ 3,943,633	$ 3,899,466	$ 7,471,648	$ 7,316,071

Long-term debt The State uses general obligation debt to finance capital projects. At the end of the current fiscal year, the State had total general obligation bond debt outstanding of $1,612.6 million backed by the full faith and credit of the State. Its relatively large debt burden reflects its centralized role in financing school construction projects that are typically funded by local governments or school districts in other states. As of June 30, 2011, $535.9 million, or 33.2%, of the State's outstanding debt was issued on behalf of local school districts. Local school districts transferred $59.6 million of property tax revenue to the State to cover related debt service during fiscal year 2011**.**

The State has no constitutional debt limits. However, in 1991, the State enacted legislation that limits debt issuance with a three-part test as follows:

- A 5% test restricts new debt authorization to 5% of budgetary general fund revenue as projected by DEFAC in June for the next fiscal year. Should actual revenue collections increase during the year, no additional authorizations are made. For fiscal year 2011, debt issuance was limited to $166.9 million.
- A 15% test restricts debt issuance if the annual payments on all outstanding debt exceed 15% of estimated budgetary general fund and Transportation Trust Fund Revenue for the next fiscal year. Currently, these annual payments represent approximately 8% of estimated general fund and Transportation Trust Fund revenues.
- Finally, a cash balance test restricts debt issuance if the debt service payment in any year exceeds the estimated cumulative cash balance for the following fiscal year. For fiscal year 2011, the projected cash balance exceeded debt service.

Due to the State's statutory debt limits and its fiscal management, three principal rating agencies, Moody's Investor's Service, Fitch Ratings and Standard & Poor's, reaffirmed their triple-A ratings on the State's general obligation bonds during fiscal year 2011. In October 2010, the State issued $310.7 million fixed rate general obligation bonds including tax-exempt bonds, taxable Build America Bonds, and Qualified School Construction Bonds. The transaction included issuance to refund higher cost debt.

Debt issued by the Delaware Transportation Authority (the Authority) does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenues, motor vehicle document fees and motor vehicle registrations. The Authority has revenue bonds outstanding of $1,099.7 million to support its ongoing capital transportation program and $111.2 million in Grant Anticipation Vehicle Bonds (GARVEEs), to finance a portion of the costs of completing the final design and right-of-way acquisition for a new U.S. 301.

Additional information on the State of Delaware's long-term debt can be found in Notes 5, 6 and 7 on pages 71 - 89 of this report.

Other Post-Employment Benefits

The State provides post-employment health care to its employees and accounts for these benefits according to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The State's actuarially accrued liability, based on a study conducted by Cheiron of McLean, Virginia, used actual data as of July 1, 2011 and has been determined to be about $6.6 billion using a discount rate of 4.3%. The State began pre-funding the obligation in 2002 with lump sum payments and contributions based on a percentage of payroll. For fiscal year 2011, the State has contributed $19.7 million, $10 million from abandoned property revenue and $9.7 million from Medicare Part D subsidies received. The State has established an irrevocable trust and has accumulated $144.0 million in net assets at June 30, 2011, which represents a funding ratio 2.1%. The State's fiscal year 2011 annual required contribution (ARC) was $488.1 million, of which 37% was met through cash contributions and paid benefits. Its fiscal year 2012 ARC is expected to be $490.5 million of which a portion is expected to be met with cash contributions and paid benefits. The State expects to manage this obligation over time with continued contributions, savings initiatives and a review of benefits. On May 2, 2011, the Governor signed House Bill 81, which made significant modifications to employee's health care insurance and pension plan programs. The legislation establishes a fixed cost share in the State's health insurance programs for both active employees and retirees and increases the time to vest for retiree health care benefits reducing the overall liability by an estimated $49.3 million in fiscal 2012.

Economic Factors and Next Year's Budgets and Rates

DEFAC met on June 16, 2011, to prepare the final revenue and expenditure estimates upon which the fiscal year 2012 operating and capital budgets would be based. The Department of Finance estimated at that time that employment in the State had increased by 1.0% during fiscal year 2011. In June 2011, the Department of Finance projected a modest rebound in fiscal year 2012 employment as the State, like the nation, gradually recovers from the recession.

The fiscal year 2012 operating and capital budgets meet budgetary spending limitations imposed by law. The fiscal year 2012 operating budget is $3,508.6 million, 6.2% more than fiscal year

2011. The fiscal year 2012 budget included $115.3 million in supplemental appropriations (historically in the form of cash allocated to the capital budget), an increase of 26.7% over the fiscal year 2011 budget.

The primary objective of the State's Investment Policy is the safety of principal by minimizing credit risk and interest rate risk. While investment income has been less than expected the principal amount of the investment portfolio has not been compromised in the recent downturn.

Financial Management

The State's financial management continues to be recognized by a premier credit rating from all three principal rating agencies: Aaa from Moody's Investor's Service, AAA from Fitch Ratings and AAA from Standard & Poor's. The ratings reflect Delaware's financial management practices that have become institutionalized within the State:

- expenditure budgeting of 98% of available general fund revenue
- general fund revenue forecasts that are frequent, objective and often conservative
- three-part debt affordability test that limits debt authorization to 5% of general fund revenue and debt service to 15% of tax supported revenue
- consistent satisfaction of the State's budget reserve requirement – the State's rainy day fund has never fallen below its mandated 5% of general fund revenue
- full funding of its pension plan

These ratings were reaffirmed in October 2011.

Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance, Division of Accounting, 820 Silver Lake Boulevard, Suite 200, Silver Lake Plaza, Dover, Delaware 19904 or visit our website at http://accounting.delaware.gov.

The State's component units publish their own separately issued audited financial statements. These statements may be obtained from their respective administrative offices.

STATE OF DELAWARE
STATEMENT OF NET ASSETS
JUNE 30, 2011
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 288,211	$ 88,299	$ 376,510	$ 50,054
Cash and cash equivalents - restricted	-	66,198	66,198	29,313
Cash with fiscal agent	632	-	632	-
Investments	328,938	127,815	456,753	217,077
Investments - restricted	-	186,009	186,009	571
Investment trade receivable	20,605	-	20,605	-
Accrued interest receivable	6,137	-	6,137	-
Accounts and other receivables, net	345,546	77,375	422,921	55,368
Loans and notes receivable, net	18,541	-	18,541	15,052
Internal balances	633	(633)	-	-
Other post-employment benefits asset	-	-	-	3
Inventories	9,807	17,100	26,907	780
Prepaid items	-	684	684	12,530
Other current assets	-	276	276	468
Total current assets	1,019,050	563,123	1,582,173	381,216
Noncurrent assets:				
Investments	1,619,478	12,750	1,632,228	103,940
Investments - restricted	-	63,354	63,354	-
Accounts and other receivables, net	42,399	-	42,399	7,588
Loans and notes receivable, net	283,955	-	283,955	892,469
Capital assets:				
Non-depreciable	916,020	3,757,836	4,673,856	161,114
Depreciable capital assets, net	2,611,995	185,797	2,797,792	422,630
Deferred bond issuance costs	54	-	54	11,729
Other restricted assets	-	-	-	14,428
Other noncurrent assets	-	5,000	5,000	2,185
Total noncurrent assets	5,473,901	4,024,737	9,498,638	1,616,083
Total assets	6,492,951	4,587,860	11,080,811	1,997,299
LIABILITIES				
Current liabilities:				
Accounts payable	471,861	44,149	516,010	10,433
Accrued liabilities	38,421	49,828	88,249	22,239
Interest payable	28,749	29,728	58,477	-
Investment trade payable	71,588	-	71,588	-
Unearned revenues	16,294	-	16,294	3,149
Compensated absences	10,400	4,844	15,244	43
Claims and judgments	33,605	-	33,605	-
Escheat liabilities	17,500	-	17,500	-
Escrow deposits	-	5,711	5,711	2
Notes payable	38	-	38	72,511
Advances from federal government	-	62,523	62,523	-
Current portion of pollution remediation obligations	5,637	644	6,281	-
Current portion of insurance loss reserve	-	4,130	4,130	-
Current portion of general obligation long-term debt, net of unamortized premium	150,726	346	151,072	-
Current portion of revenue bonds, net of unamortized premium	-	83,650	83,650	118,642
Other current liabilities	1,034	-	1,034	38,300
Total current liabilities	845,853	285,553	1,131,406	265,319
Noncurrent liabilities:				
Pension obligation	117,768	-	117,768	-
Other post-employment benefits payable	1,204,101	112,998	1,317,099	-
Compensated absences	160,558	9,507	170,065	7,729
Claims and judgments	107,512	6,000	113,512	-
Escheat liabilities	70,000	-	70,000	-
Escrow deposits	-	-	-	31,828
Notes payable	39	-	39	54,769
Pollution remediation obligations	12,874	1,113	13,987	-
Insurance loss reserve	-	2,945	2,945	-
Liabilities payable from restricted assets	-	2,844	2,844	-
General obligation long-term debt, net of unamortized premium	1,597,728	441	1,598,169	-
Revenue bonds, net of unamortized premium	-	1,160,558	1,160,558	741,610
Other long-term obligations	3,734	-	3,734	107,346
Total noncurrent liabilities	3,274,314	1,296,406	4,570,720	943,282
Total liabilities	4,120,167	1,581,959	5,702,126	1,208,601
NET ASSETS				
Invested in capital assets, net of related debt	1,831,490	2,840,595	4,672,085	389,685
Restricted for:				
Debt service	-	173,445	173,445	-
Budgetary reserve	186,430	-	186,430	-
Federal and state regulations	-	-	-	264,737
Bond covenants	-	-	-	34,052
Capital projects	-	-	-	29,051
Other purposes	-	-	-	14,459
Unrestricted	354,864	(8,139)	346,725	56,714
Total net assets	$ 2,372,784	$ 3,005,901	$ 5,378,685	$ 788,698

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

Function	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	$ 660,931	$ 214,996	$ 24,056	$ -
Health and children's services	2,186,189	67,485	1,199,641	-
Judicial and public safety	596,764	54,681	56,189	-
Natural resources and environmental control	189,301	95,460	62,312	-
Labor	74,063	6,370	46,817	-
Education	2,304,468	36,034	346,011	-
Interest	75,522	-	-	-
Total governmental activities	6,087,238	475,026	1,735,026	-
Business-type activities:				
Lottery	384,611	728,506	-	-
DelDOT	593,632	445,084	-	195,030
Unemployment	300,262	117,060	170,681	-
Total business-type activities	1,278,505	1,290,650	170,681	195,030
Total primary government	7,365,743	1,765,676	1,905,707	195,030
Component units:				
Delaware State Housing Authority	124,873	52,492	79,201	1,012
Diamond State Port Corporation	34,358	31,890	-	10,181
Riverfront Development Corporation	9,348	1,814	216	2,431
Delaware State University	111,297	45,955	32,452	8,875
Delaware Technical & Community College Educational Foundation	764	495	511	-
Delaware Charter Schools	113,802	7,358	5,155	181
Total component units	394,442	140,004	117,535	22,680

General revenues:
Taxes:
Personal income
Business
Real estate
Other
Unrestricted payments from primary government
Investment income (loss)
Gain (loss) on disposal of assets
Miscellaneous
Transfers in (out)
Total general revenues and transfers

Change in net assets

Net assets - beginning of year
Net assets - end of year

See Accompanying Notes to Financial Statements

Net (Expenses) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (421,879)		$ (421,879)	
(919,063)		(919,063)	
(485,894)		(485,894)	
(31,529)		(31,529)	
(20,876)		(20,876)	
(1,922,423)		(1,922,423)	
(75,522)		(75,522)	
(3,877,186)		(3,877,186)	
	$ 343,895	343,895	
	46,482	46,482	
	(12,521)	(12,521)	
	377,856	377,856	
			$ 7,832
			7,713
			(4,887)
			(24,015)
			242
			(101,108)
			(114,223)
986,002	-	986,002	-
1,926,473	-	1,926,473	-
456,772	-	456,772	-
246,268	-	246,268	-
-	-	-	117,381
28,356	2,815	31,171	7,701
-	587	587	(143)
29,201	(1,000)	28,201	(1,571)
320,891	(320,891)	-	-
3,993,963	(318,489)	3,675,474	123,368
116,777	59,367	176,144	9,145
2,256,007	2,946,534	5,202,541	779,553
$ 2,372,784	$ 3,005,901	$ 5,378,685	$ 788,698

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 270,332	$ 7,024	$ 10,855	$ -	$ 288,211
Investments	1,556,351	-	338,621	53,442	1,948,414
Investment trade receivable	19,920	-	-	685	20,605
Accrued interest receivable	5,933	-	-	204	6,137
Accounts receivable, net	67,851	10,554	1,503	-	79,908
Taxes receivable, net	67,350	-	32,648	-	99,998
Intergovernmental receivables, net	-	208,039	-	-	208,039
Loans and notes receivable	37,145	265,351	-	-	302,496
Due from other funds	53,201	-	-	-	53,201
Prepaid items	74	-	-	-	74
Inventories	9,807	-	-	-	9,807
Total assets	2,087,964	490,968	383,627	54,331	3,016,890
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	363,828	78,206	17,943	11,884	471,861
Accrued liabilities	38,421	-	-	-	38,421
Investment trade payable	69,209	-	-	2,379	71,588
Claims and judgments	1,034	-	-	-	1,034
Escheat liability	87,500	-	-	-	87,500
Due to other funds	-	52,568	-	-	52,568
Deferred revenues	130,700	343,440	27,413	-	501,553
Total liabilities	690,692	474,214	45,356	14,263	1,224,525
Fund balances					
Nonspendable	9,807	-	-	-	9,807
Restricted	217,304	16,754	338,271	-	572,329
Committed	125,894	-	-	40,068	165,962
Assigned	201,808	-	-	-	201,808
Unassigned	842,459	-	-	-	842,459
Total fund balances	1,397,272	16,754	338,271	40,068	1,792,365
Total liabilities and fund balances	$ 2,087,964	$ 490,968	$ 383,627	$ 54,331	$ 3,016,890

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2011
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$	1,792,365
Amounts reported for governmental activities in the statement of net assets are different because:			
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:			
Land	440,129		
Land improvements	147,656		
Buildings	2,383,096		
Easements	274,871		
Equipment and vehicles	81,243		
Construction in progress	201,020		
			3,528,015
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.			485,259
Some liabilities net of related assets are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:			
Interest payable	(28,749)		
Claims and judgments (current and long-term)	(141,117)		
Compensated absences (current and long-term)	(170,958)		
Other post employment benefits	(1,204,101)		
Pollution remediation obligations (current and long-term)	(18,511)		
Pension obligation	(117,768)		
General obligation long-term debt and related accounts	(1,747,840)		
Notes payable (current and long-term)	(77)		
Other long-term obligations	(3,734)		
			(3,432,855)
Net assets of governmental activities		$	2,372,784

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
Revenues					
Personal taxes	$ 986,002	$ -	$ -	$ -	$ 986,002
Business taxes	1,926,473	-	-	-	1,926,473
Other tax revenue	246,268	-	456,772	-	703,040
Licenses, fees, permits and fines	325,320	437	492	-	326,249
Rentals and sales	110,193	1,374	5,362	-	116,929
Grants	39,005	1,626,050	833	-	1,665,888
Interest and other investment income	25,184	109	3,063	-	28,356
Other	76,892	72	17,595	-	94,559
Total revenues	3,735,337	1,628,042	484,117	-	5,847,496
Expenditures					
Current:					
General government	533,048	17,582	-	-	550,630
Health and children's services	1,083,709	1,107,771	-	-	2,191,480
Judicial and public safety	550,939	49,972	-	-	600,911
Natural resources and environmental control	130,693	47,130	-	-	177,823
Labor	31,051	38,861	-	-	69,912
Education	1,277,237	276,404	401,354		1,954,995
Unrestricted payments to component unit - Education	95,630	-	21,751	-	117,381
Capital outlay	-	-	-	195,415	195,415
Debt service:					
Principal	140,750	-	-	-	140,750
Interest and other charges	65,725	-	-	-	65,725
Advance Refunding Escrow	54,644	-	-	-	54,644
Costs of issuance of debt	-	-	-	628	628
Total expenditures	3,963,426	1,537,720	423,105	196,043	6,120,294
Excess (deficiency) of of revenues over expenditures	(228,089)	90,322	61,012	(196,043)	(272,798)
Other Sources (Uses) of Financial Resources					
Transfers in	485,187	-	66,343	-	551,530
Transfers out	(56,193)	(25,163)	(97,451)	(51,832)	(230,639)
Issuance of general obligation bonds	-	-	-	310,665	310,665
Premiums on bond sales	-	-	-	10,910	10,910
Total other sources (uses) of financial resources	428,994	(25,163)	(31,108)	269,743	642,466
Net change in fund balances	200,905	65,159	29,904	73,700	369,668
Fund balances (deficits) - beginning	1,196,367	(48,405)	308,367	(33,632)	1,422,697
Fund balances - ending	$ 1,397,272	$ 16,754	$ 338,271	$ 40,068	$ 1,792,365

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
RECONCILIATION OF THE NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENT FUNDS TO CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

Net Changes in Fund Balances		$ 369,668
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays	218,772	
Depreciation expense	(107,362)	
		111,410
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		122,048
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Components of the debt related adjustments consist of:		
Debt service principal repayments	140,750	
Advanced refunding payments	54,644	
New debt issued (face value)	(310,665)	
Premium received	(10,910)	
Issuance costs	628	
Prepaid items	(34,554)	
Amortization of premium/issuance costs	(3,262)	
		(163,369)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, the changes in these liabilities are not reported as expenditures in the governmental funds:		
Accrued interest expense		(7,139)
Claims and judgments		(11,210)
Compensated absences		(8,513)
Other post employment benefits		(298,016)
Pollution remediation obligation		4,896
Pension obligation		(2,199)
Notes payable		135
Other liabilities		(934)
Change in Net Assets of Governmental Activities		$ 116,777

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 30,145	$ 6,184	$ 51,970	$ 88,299
Cash and cash equivalents - restricted	-	-	66,198	66,198
Investments	-	-	127,815	127,815
Investments - restricted	-	667	185,342	186,009
Accounts receivable, net	11,102	5,415	14,030	30,547
Taxes receivable, net	20,425	-	-	20,425
Intergovernmental receivables, net	4,216	-	21,492	25,708
Current portion of interest receivable	-	-	695	695
Inventories	-	-	17,100	17,100
Escrow insurance deposits	-	-	276	276
Prepaid items	-	-	684	684
Total current assets	65,888	12,266	485,602	563,756
Noncurrent assets:				
Investments	-	-	12,750	12,750
Investments - restricted	-	448	62,906	63,354
Other assets	-	2,396	-	2,396
Prepaid pension	-	-	2,604	2,604
Capital assets, non-depreciable	-	-	3,757,836	3,757,836
Capital assets, depreciable, net	-	1	185,796	185,797
Total noncurrent assets	-	2,845	4,021,892	4,024,737
Total assets	65,888	15,111	4,507,494	4,588,493
LIABILITIES				
Current liabilities:				
Accounts payable	-	4,679	35,214	39,893
Accrued liabilities	34,318	-	11,218	45,536
Interest payable	1,327	-	28,401	29,728
Compensated absences	-	-	4,844	4,844
Prizes liability	-	4,292	-	4,292
Escrow deposits	-	-	5,711	5,711
Pollution remediation obligations	-	-	644	644
Current portion of insurance loss reserve	-	-	4,130	4,130
Current portion of general obligation long-term debt	-	-	346	346
Current portion of revenue bonds, net of unamortized premium	-	-	83,650	83,650
Tax refunds payable	4,256	-	-	4,256
Advances from federal government	62,523	-	-	62,523
Due to other funds	-	633	-	633
Total current liabilities	102,424	9,604	174,158	286,186
Noncurrent liabilities:				
Other post-employment benefits payable	-	1,663	111,335	112,998
Compensated absences	-	-	9,507	9,507
Return of federal funds	-	-	6,000	6,000
Pollution remediation obligations	-	-	1,113	1,113
Insurance loss reserve	-	-	2,945	2,945
Liabilities payable from restricted assets	-	2,844	-	2,844
General obligation long-term debt	-	-	441	441
Revenue bonds, net of unamortized premium	-	-	1,160,558	1,160,558
Total noncurrent liabilities	-	4,507	1,291,899	1,296,406
Total liabilities	102,424	14,111	1,466,057	1,582,592
Net assets:				
Invested in capital assets, net of related debt	-	1	2,840,594	2,840,595
Restricted for:				
Debt service	-	-	173,445	173,445
Unrestricted	(36,536)	999	27,398	(8,139)
Total net assets	$ (36,536)	$ 1,000	$ 3,041,437	$ 3,005,901

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Operating revenues:				
Unemployment taxes-state funded	$ 93,757	$ -	$ -	$ 93,757
Unemployment taxes-federal funded	170,681	-	-	170,681
Gaming revenue	-	728,506	-	728,506
Pledged revenues:				
Turnpike revenue	-	-	115,895	115,895
Motor vehicle and related revenue	-	-	256,718	256,718
Turnpike revenue	-	-	44,429	44,429
Passenger fares	-	-	13,963	13,963
Miscellaneous	23,303	-	14,079	37,382
Total operating revenues	287,741	728,506	445,084	1,461,331
Operating expenses:				
Unemployment benefits-state funded	133,882	-	-	133,882
Unemployment benefits-federal funded	165,053	-	-	165,053
Cost of sales	-	297,710	-	297,710
Prizes	-	75,846	-	75,846
Transportation	-	-	512,792	512,792
Depreciation	-	2	24,523	24,525
General and administrative	-	11,053	9,847	20,900
Total operating expenses	298,935	384,611	547,162	1,230,708
Operating income (loss)	(11,194)	343,895	(102,078)	230,623
Nonoperating revenues (expenses):				
Investment income	153	-	2,662	2,815
Interest expense	(1,327)	-	(46,470)	(47,797)
Loss on note receivable	-	-	-	-
Contributions to thoroughbred program	-	(1,000)	-	(1,000)
Loss on disposal of assets	-	-	587	587
Total nonoperating revenues (expenses)	(1,174)	(1,000)	(43,221)	(45,395)
Income (loss) before transfers and capital contributions	(12,368)	342,895	(145,299)	185,228
Capital contributions	-	-	195,030	195,030
Transfers in	-	-	27,233	27,233
Transfers out	-	(342,895)	(5,229)	(348,124)
Increase (decrease) in net assets	(12,368)	-	71,735	59,367
Net assets - beginning of year	(24,168)	1,000	2,969,702	2,946,534
Net assets - end of year	$ (36,536)	$ 1,000	$ 3,041,437	$ 3,005,901

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Cash flows from operating activities:				
Receipts from employers	$ 89,419	$ -	$ -	$ 89,419
Receipts from federal government	168,591	-	-	168,591
Payments for insurance claims	(311,166)	-	(4,027)	(315,193)
Receipts from customers and users	-	729,306	437,179	1,166,485
Other operating receipts	23,303	-	2,179	25,482
Payments to suppliers for goods and services	-	(43,326)	(360,333)	(403,659)
Payments to employees for services	-	(5,454)	(119,041)	(124,495)
Payments for prizes	-	(76,718)	-	(76,718)
Payment for commissions	-	(264,790)	-	(264,790)
Net cash provided (used) by operating activities	(29,853)	339,018	(44,043)	265,122
Cash flows from noncapital financing activities:				
Transfers in	-	-	27,233	27,233
Transfers out	-	(349,774)	(5,229)	(355,003)
Net cash used by noncapital financing activities	-	(349,774)	22,004	(327,770)
Cash flows from capital and related financing activities:				
Capital grants	-	-	180,174	180,174
Purchases of capital assets	-	-	(68,817)	(68,817)
Advances from federal government	49,621	-	-	49,621
Principal paid on capital debt	-	-	(72,423)	(72,423)
Interest paid on capital debt	-	-	(52,835)	(52,835)
Proceeds from sale of land and equipment	-	-	716	716
Proceeds from issuance of debt	-	-	119,835	119,835
Premium from bond sale	-	-	6,626	6,626
Payment to escrow agent for refunding of debt	-	-	(21,057)	(21,057)
Federal reimbursement of debt service	-	-	7,801	7,801
Net cash used by capital and related financing activities	49,621	-	100,020	149,641
Cash flows from investing activities:				
Interest and investment revenues	153	-	3,428	3,581
Repayment on loan receivable	-	-	789	789
Escrow deposits received	-	-	35	35
Purchase of investments	-	-	4,119,491	4,119,491
Proceeds from sales and maturities of investments	-	902	(4,126,922)	(4,126,020)
Net cash provided by investing activities	153	902	(3,179)	(2,124)
Net increase (decrease) in cash and cash equivalents	19,921	(9,854)	74,802	84,869
Cash and cash equivalents - beginning of year	10,224	16,038	43,366	69,628
Cash and cash equivalents - end of year	30,145	6,184	118,168	154,497
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	(11,194)	343,895	(102,078)	230,623
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	-	2	24,523	24,525
Decrease (increase) in assets:				
Receivables, net	(3,197)	800	(2,743)	(5,140)
Inventories	-	-	(1,093)	(1,093)
Prepaid items	-	-	(948)	(948)
Increase (decrease) in liabilities:				
Accounts and other payables	585	-	(3,887)	(3,302)
Accrued liabilities	(12,816)	(104)	(4,021)	(16,941)
Accrued expenses	-	(872)	13,324	12,452
Accrued payroll and related expenses	-	(5,280)	1,243	(4,037)
Post-employment benefits	-	577	31,637	32,214
Due to/from federal government	(3,231)	-	-	(3,231)
Net cash provided (used) by operating activities	$ (29,853)	$ 339,018	$ (44,043)	$ 265,122

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust	Agency
Assets:				
Cash and cash equivalents	$ 452,827	$ 25,515	$ 4,065	$ 23,951
Receivables:				
Accrued interest	19,629	-	99	-
Investment sales pending	21,194	-	106	-
Employer contributions	13,177	10,999	-	-
Member contributions	4,251	54	-	-
Other receivables	-	-	-	42,384
Investments, at fair value:				
Domestic fixed income	720,422	48,770	7,038	-
Domestic equities	1,549,817	45,868	11,014	-
Pooled equity and fixed income	1,579,700	-	7,961	-
Alternative investments	1,856,736	-	-	-
Short term investments	-	-	9,357	26,848
Foreign fixed income	189,902	-	956	-
Foreign equities	1,234,701	24,185	7,913	-
Total assets	7,642,356	155,391	48,509	93,183
Liabilities:				
Accounts payable	-	-	-	93,183
Investment purchase payable	24,998	11,898	125	-
Benefits/claims payable	1,409	-	-	-
Accrued investment expense	5,004	5	26	-
Accrued administrative expenses	356	-	-	-
Total liabilities	31,767	11,903	151	93,183
Net assets:				
Assets held in trust for benefits and pool participants	$ 7,610,589	$ 143,488	$ 48,358	$ -

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust
Additions:			
Contributions:			
Employer contributions	$ 186,418	$ 162,603	$ -
Transfer from post-retirement increase fund	13,825	-	-
Transfer of assets from outside the system	3,108	19,695	631
Member contributions	55,003	6,219	-
Total contributions	258,354	188,517	631
Investments:			
Investment earnings	144,533	2,552	1,222
Net increase in fair value of investments	1,371,795	14,860	10,402
Total investment earnings	1,516,328	17,412	11,624
Less investment manager/advisor/custody fees	(21,592)	(54)	(116)
Less investment administrative expenses	(603)	-	-
Net investment earnings	1,494,133	17,358	11,508
Total additions	1,752,487	205,875	12,139
Deductions:			
Transfer of assets from post-retirement increase fund	13,825	-	-
Transfer of assets from outside the system	1,822	-	21,359
Pension/claim payments	454,217	166,644	-
Refunds of contributions to members	3,278	-	-
Group life payments	4,927	-	-
Administrative expenses	5,383	108	1
Total deductions	483,452	166,752	21,360
Change in net assets	1,269,035	39,123	(9,221)
Net assets - beginning of year	6,341,554	104,365	57,579
Net assets - end of year	$ 7,610,589	$ 143,488	$ 48,358

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2011
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC * Educational Foundation	Delaware Charter Schools	All Component Units Total
ASSETS							
Current assets:							
Cash and cash equivalents	$ 5,446	$ 1,885	$ 134	$ 17,346	$ 1,207	$ 24,036	$ 50,054
Cash and cash equivalents - restricted	-	16,835	-	11,267	-	1,211	29,313
Investments	206,571	-	117	-	10,386	3	217,077
Investments - restricted	-	-	-	571	-	-	571
Accounts and other receivables, net	36,379	2,748	105	15,907	-	229	55,368
Loans and notes receivable, net	14,413	-	639	-	-	-	15,052
Other post-employment benefits (OPEB) asset	3	-	-	-	-	-	3
Inventories	-	780	-	-	-	-	780
Prepaid items	3,434	547	33	-	-	7,981	11,995
Deferred bond issuance costs	535	-	-	-	-	-	535
Other restricted assets	-	-	-	-	74	-	74
Other current assets	-	-	-	374	-	20	394
Total current assets	266,781	22,795	1,028	45,465	11,667	33,480	381,216
Noncurrent assets:							
Long-term investments	81,559	-	-	22,325	56	-	103,940
Accounts and other receivables, net	7,588	-	-	-	-	-	7,588
Loans and notes receivable, net	891,285	-	417	67	-	700	892,469
Capital assets - non-depreciable	4,532	25,687	107,526	16,976	-	6,393	161,114
Capital assets - depreciable, net	15,047	140,797	16,479	191,205	-	59,102	422,630
Deferred bond issuance costs	7,976	-	-	1,626	-	2,127	11,729
Other restricted assets	-	-	-	6,974	7,454	-	14,428
Other noncurrent assets	-	-	1,817	368	-	-	2,185
Total noncurrent assets	1,007,987	166,484	126,239	239,541	7,510	68,322	1,616,083
Total assets	1,274,768	189,279	127,267	285,006	19,177	101,802	1,997,299
LIABILITIES							
Current liabilities:							
Accounts payable	1,404	245	619	6,083	34	2,048	10,433
Accrued liabilities	240	3,547	60	9,073	-	9,319	22,239
Deferred revenue	-		60	3,089	-	-	3,149
Compensated absences	30	-	-	-	-	13	43
Escrow deposits	-	-	2	-	-	-	2
Notes payable	69,720	2,308	-	-	-	483	72,511
Current portion of revenue bonds	117,449	-	385	-	-	808	118,642
Current portion of other long-term debt	-	-	1,935	34,964	-	1,193	38,092
Other current liabilities	206	-	-	-	2	-	208
Total current liabilities	189,049	6,100	3,061	53,209	36	13,864	265,319
Noncurrent liabilities:							
Compensated absences	947	-	-	5,408	-	1,374	7,729
Escrow deposits	31,749	-	-	-	-	79	31,828
Notes payable	-	28,674	-	-	-	26,095	54,769
Revenue bonds	712,643	-	2,875	-	-	26,092	741,610
Long-term debt	-	-	12,055	70,028	-	24,283	106,366
Other noncurrent liabilities	723	-	-	-	64	193	980
Total noncurrent liabilities	746,062	28,674	14,930	75,436	64	78,116	943,282
Total liabilities	935,111	34,774	17,991	128,645	100	91,980	1,208,601
NET ASSETS							
Invested in capital assets, net of related debt	19,578	135,502	106,755	120,545	-	7,305	389,685
Restricted for:							
Federal and state regulations	253,738	-	-	424	10,575	-	264,737
Bond covenants	34,052	-	-	-	-	-	34,052
Capital projects	2,925	16,835	-	7,795	-	1,496	29,051
Other purposes	-	-	-	14,336	-	123	14,459
Unrestricted	29,364	2,168	2,521	13,261	8,502	898	56,714
Total net assets	$ 339,657	$ 154,505	$ 109,276	$ 156,361	$ 19,077	$ 9,822	$ 788,698

* Fiscal year-end December 31, 2010

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Expressed in Thousands)

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Component units:				
Delaware State Housing Authority	$ 124,873	$ 52,492	$ 79,201	$ 1,012
Diamond State Port Corporation	34,358	31,890	-	10,181
Riverfront Development Corporation	9,348	1,814	216	2,431
Delaware State University	111,297	45,955	32,452	8,875
Delaware Technical and Community College (DTCC) Educational Foundation	764	495	511	-
Delaware Charter Schools	113,802	7,358	5,155	181
Total component units	$ 394,442	$ 140,004	$ 117,535	$ 22,680
General revenues:				
Unrestricted payments from primary government				
Investment income (loss)				
Gain (loss) on disposal of assets				
Miscellaneous				
Total general revenues				
Change in net assets				
Net assets - beginning of year (as restated)				
Net assets - end of year				

* Fiscal year ended December 31, 2010

See Accompanying Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Assets						
Delaware State Housing Authority	**Diamond State Port Corporation**	**Riverfront Development Corporation**	**Delaware State University**	**DTCC * Educational Foundation**	**Delaware Charter Schools**	**Totals**
$ 7,832						$ 7,832
	$ 7,713					7,713
		$ (4,887)				(4,887)
			$ (24,015)			(24,015)
				$ 242		242
					$ (101,108)	(101,108)
						(114,223)
-	-	-	32,840	-	84,541	117,381
4,548	(1,347)	88	3,189	1,023	200	7,701
-	-	(90)	-	(53)	-	(143)
-	-	600	(2,258)	-	87	(1,571)
4,548	(1,347)	598	33,771	970	84,828	123,368
12,380	6,366	(4,289)	9,756	1,212	(16,280)	9,145
327,277	148,139	113,565	146,605	17,865	26,102	779,553
$ 339,657	$ 154,505	$ 109,276	$ 156,361	$ 19,077	$ 9,822	$ 788,698

See Accompanying Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Delaware (the State) have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

(a) Reporting Entity

The accompanying financial statements present the State's primary government and include all funds, elected officials, departments and organizations, bureaus, boards, commissions, and authorities that comprise the State's legal entity. The State's 19 local school districts are fiscally dependent and not legally separate from the State. As per the interpretation of Article X, Section 2 of the State's Constitution, the local school districts are included in the reporting entity of the primary government. The DelDOT enterprise fund, which includes the Transportation Trust Fund and the Delaware Transit Corporation, is also included in the reporting entity of the primary government. Fiduciary funds, although legally separate entities, are in substance part of the State's operations. The State's reporting entity is also comprised of its component units, entities for which the State is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that such are legally separate from the State.

Financial accountability is defined in GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* The State is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The State may also be financially accountable if an organization is fiscally dependent on the State, regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Blended Component Units

The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a blended component unit and is shown in the financial statements as part of the primary government as a pension trust fund. The financial report of DPERS for the year ended June 30, 2011 may be obtained in writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

The Delaware OPEB Fund Trust (OPEB Trust) is a trust, which provides retirement medical coverage to pensioners and their eligible dependents in the State's Employees', Judiciary, New State Police, and Closed State Police Pension Plans. The OPEB Trust is a legally separate entity; however, it provides services and benefits almost exclusively to the primary

government. The OPEB Trust is considered a blended component unit and is shown in the financial statements as part of the primary government as an OPEB trust fund.

The Sustainable Energy Utility (SEU) is a 501(c)3 nonprofit organization, which was established to reduce energy waste and foster a sustainable energy future for the State. It provides benefits almost exclusively to the primary government. The SEU is considered a blended component unit and is shown as part of the Natural Resources and Environmental Control function throughout the financial statements for the primary government.

Discretely Presented Component Units

The following component units are entities that are legally separate from the State, but are financially accountable to the State for reporting purposes or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The component unit's column of the basic financial statements includes the financial data of these entities. Except for the Delaware Technical and Community College Educational Foundation, which has a fiscal year-end of December 31, 2010, each discretely presented component unit has a June 30, 2011 fiscal year-end.

Delaware State Housing Authority

The Delaware State Housing Authority (DSHA) is a public corporation whose Director is appointed by and reports directly to the Governor of the State. The DSHA administers the role of providing affordable housing as a key aspect of State policy. The DSHA's relationship with the State is such that exclusion of the DSHA from the State's basic financial statements would cause the statements to be misleading or incomplete. The DSHA is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited for-profit housing sponsors; (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making newly qualified residential mortgage loans; (3) purchase qualified mortgage loans from mortgage lenders; and (4) apply for and receive assistance and subsidies under programs from the federal government and others.

Diamond State Port Corporation

The Diamond State Port Corporation (DSPC) was organized as a body corporate and politic constituting a public instrumentality of the State. The DSPC is empowered to operate, improve and maintain the Port of Wilmington and related facilities. The Governor appoints 8 of the 15 members of the board of directors, with the advice and consent of the Senate. The DSPC's relationship with the State is such that exclusion of the DSPC from the State's basic financial statements would cause the statements to be misleading or incomplete.

Riverfront Development Corporation

The Riverfront Development Corporation (RDC) was formed to plan, develop and manage programs and projects intended to foster economic development along the Brandywine and Christina Rivers. The Governor appoints seven of the 18 board members; however, seven of

the remaining 11 directors consist of the Governor and six State officials. Authorization by the State's Budget Director and Controller General is required before funds of the RDC may be expended.

Delaware State University

Delaware State University (DSU) is a public institution of higher education. Funding is primarily through State appropriations. State appropriations without restrictions as to use by the University are reported in general revenue. Additional funding is derived from tuition, federal grants, private donations and grants. The Board of Trustees is comprised of 15 members, eight appointed by the Governor of Delaware and seven elected by the Trustees. The President of the University and the Governor of the State of Delaware serve as ex-officio members of the Board. Delaware State University financial data includes its two component units, the Delaware State University Housing Foundation and the Delaware State University Foundation, Inc.

Delaware Technical and Community College Educational Foundation

The Delaware Technical and Community College Educational Foundation (the Foundation) is a fiduciary-type component unit of Delaware Technical and Community College (DTCC), which is part of the primary government. The Foundation was established on November 13, 1968 by a trust agreement. On April 20, 1999, the Foundation revised the trust document incorporating all previous amendments to the previous trust document. The trust agreement stipulates that the activities of the Foundation be limited to such educational purposes that come under Section 501(c) (3) of the Internal Revenue Code. Activities include, but are not limited to, making contributions, gifts or grants, or otherwise rendering financial aid and assistance by direct payments to DTCC and providing financial assistance to qualified students. The Foundation has a fiscal year-end of December 31, 2010.

Delaware Charter Schools

The State's 22 Charter Schools are public schools funded primarily through State appropriations. Additional funding is derived from federal grants passed through from the primary government, private donations and funds received from local school districts on a tax portion per child basis. Charter schools are each managed by a board of directors, which operate independently, under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial.

Complete financial statements for each of the discretely presented component units may be obtained from their respective administrative offices.

Related Organizations

Officials of the State's primary government appoint a voting majority of the governing board of the Delaware Solid Waste Authority (DSWA). The primary government's accountability for DSWA does not extend beyond making the appointments. The financial activities of DSWA are not included in the State's financial statements.

The Governor appoints eight members of the governing board of the University of Delaware (the University). The remaining 20 members are elected separately. The primary government's accountability does not extend beyond State grants to the University. The financial activities of the University are not included in the State's financial statements.

Jointly Governed Organization

The Delaware River and Bay Authority (DRBA), a body politic, was created with the intention of advancing the economic growth and development of those areas in the State of Delaware and the State of New Jersey, which border the Delaware River and Delaware Bay. DRBA is governed by 12 commissioners: six appointed by the State of Delaware and six appointed by the State of New Jersey. DRBA is autonomous from a day-to-day operations perspective and neither State is obligated for the DRBA's debt. DRBA is not included in these financial statements as the State of Delaware has no ongoing financial interest.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is separately presented from certain legally separate component units for which the State is financially accountable.

The statement of net assets measures not just current assets and liabilities, but also long-term assets and liabilities such as capital assets (including infrastructure assets) and general long-term debt. The difference between the State's assets and its liabilities is its net assets. Net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or

privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds reported as part of the fiduciary fund financial statements are custodial in nature and do not present results of operations and, therefore, do not have a measurement of focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the State's enterprise operations and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Intrafund transactions between the primary government and component units are reported as operating or capital grants as appropriate for restricted amounts. Unrestricted amounts are reported as general revenue.

Governmental fund financial statements are reported using the current financial resources

measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, grants, fees, sales, rents, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the State. Revenue related to expenditure driven grants is recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental Funds

The State reports the following major governmental funds:

General Fund – The general fund is the State's primary operating fund. It accounts for all financial resources obtained and used for those services traditionally provided by a state government, which are not required to be accounted for in other funds. These services include, among others, education, and health and social services.

Federal Fund – The federal fund accounts for all activities relating to the State's federal grant programs.

Local School District Fund – The local school district fund is used to account for aggregate financial activity of the State's local school districts that is funded by locally-raised real estate taxes, interest, and minor miscellaneous revenue. The aggregate financial activity is funded from other sources, such as federal grant programs, major and minor capital project programs, and subsidized government programs are accounted for in the general fund, federal fund, and capital project fund.

Capital Projects Fund – Transactions related to resources obtained and used for the acquisition or construction of major capital facilities (other than those financed by proprietary and fiduciary funds), are accounted for in the capital projects fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants, and operating transfers from the general fund.

Proprietary Funds

Proprietary funds are used to account for those activities which are financed and operated in a manner similar to private business enterprises. The costs of providing services to the public on a continuing basis are financed by or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the unemployment fund are charges from employers for taxes against wages. The principal operating revenues of the lottery fund and DelDOT fund are charges to customers for sales and services.

The Lottery fund recognizes revenue from online games the day of the drawing. Revenue from the sale of instant tickets is recognized when the book has been activated and 85% of the related prizes of an activated book are paid, 90 days from the date of activation, or when the next pack of the same game is activated. Revenue from video lottery and table games is recognized, net of prizes paid, at the time the public plays the game. Revenue from sports lottery is also recognized at time public plays the game.

Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. For the unemployment fund, expenses are payments of benefits to recipients. All expenses not meeting this definition are reported as non-operating expenses.

The State reports the following major proprietary funds:

DelDOT Fund – The DelDOT fund accounts for the activities relating to the operation of the State's Department of Transportation, including the Delaware Transportation Trust (Authority).

Unemployment Fund – The unemployment fund accounts for the activities relating to the State's Unemployment Insurance Trust Fund.

Lottery Fund – The lottery fund accounts for the activities relating to the Lottery program.

Fiduciary Funds

The fiduciary funds account for assets held by the State in a trustee capacity or as an agency for other individuals or organizations. The fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The State reports the following fiduciary funds:

Agency Funds – Agency funds are custodial in nature and do not involve measurement of the results of operations. They account for the receipt of various taxes, deposits, deductions, and certain property collected by the State, acting in the capacity of an agent, and for the distribution to other governmental units or designated beneficiaries.

Pension Trust Funds – The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost

exclusively to the primary government, the DPERS is considered a fiduciary fund and is shown in the financial statements as part of the primary government as a pension trust fund. Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits (Note 15). For pension trust funds, employee contributions are recognized as revenue in the period in which the employee services are performed. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The financial report of DPERS for the year ended June 30, 2011, may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

Investment Trust Funds – Investment trust funds are used to account for external investment pools where a government commingles the monies of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. The investment trust fund accounts for the transactions, assets, liabilities and fund equity for the DPERS's external investment pool and for the Delaware Other Post Employment Benefit Trust Fund (OPEB) Investment Trust fund.

OPEB Trust Fund – The OPEB Trust is a trust administered by DPERS. In addition to providing pension benefits, the State is statutorily required to provide health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the State and the retired employee. The State recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the year paid.

New Accounting Pronouncements

During the fiscal year ending June 30, 2011, the state adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The Statement requires governments to disclose information in the notes about the processes through which constraints are imposed, as well as accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to be spent. This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. Details on the State's fund balance classifications and policies are reflected in note 16.

However, during the implementation the prior year's reserved balance for long term portion of loans receivable of $39.4 million was transferred from the general fund to the federal fund. This had no impact on the statement of revenues, expenditures, and changes in fund balances for the current fiscal year.

During fiscal year ending June 30, 2011 the state adopted GASB Statement No. 59 *Financial Instruments Omnibus.* Statement No. 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. There was no impact on the adoption of this standard due to existing state reporting and disclosure practices compliance with the requirements of Statement No. 59.

Impact of Future Accounting Pronouncements

In November of 2010, the GASB issued Statement No. 61 "*Financial Reporting Entity: Omnibus an amendment of FSB Statements No. 14 and No. 34.*" This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. The State is currently evaluating the future impact of this statement.

(c) Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents. For the purposes of the statement of cash flows, restricted cash is considered to be a cash equivalent. Investment securities with maturities of greater than one year are reported as long-term investments.

Investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost. Investment securities with remaining maturities of greater than one year are identified as long-term investments.

The State presents its deposits and investments in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* an amendment to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including repurchase agreements) and Reverse Repurchase Agreements*. This standard requires that state and local governments, including

colleges and universities, disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas; credit risk, interest rate and maturity, interest rate sensitivity and foreign exchange exposure.

Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). All trade and property tax receivables, including those for the component units, are shown net of an allowance for uncollectibles and refunds.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as they are needed. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation.

The State has the following restricted asset:

- The Authority restricts revenue bond proceeds that are accounted for in the Transportation Fund.

The component units have the following restricted assets:

- Diamond State Port Corporation has restricted investments for capital project outlays.
- Delaware State University has restricted assets for capital project outlays, grants, and college endowment funds.
- Charter schools have restricted assets to cover debt service payments.
- Delaware Technical and Community College has restricted assets based on donor stipulations.
- Delaware State Housing Authority has restricted assets used for the specific purpose of housing development fund activities per enabling legislation.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (which are normally immovable and of value only to the State, such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities

columns in the government-wide financial statements, the proprietary funds and component units.

Capital assets are defined by the State as assets with estimated useful lives in excess of one year at the date of acquisition. Such assets are recorded at historical cost if purchased or constructed, or estimated historical cost if the original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land and buildings are capitalized, regardless of cost. Equipment and vehicles are capitalized when the cost of individual items exceeds $25,000. Building and land improvements are capitalized when the cost of the project exceeds $100,000. Infrastructure and software are capitalized when the costs of individual items or projects exceed $1.0 million. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as statues, monuments, historical documents, paintings, forts, miscellaneous State capitol-related artifacts and furnishings. These assets are held for public exhibition, education or research in furtherance of public service rather than financial gain; they are protected, kept unencumbered, cared for and preserved; and they are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Asset	**Primary Government Years**	**Component Unit Years**
Buildings and Building Improvements	10 - 40	15 - 75
Land Improvements	20	N/A
Furniture and Equipment	3 - 12	3 - 40
Vehicles	7	N/A
Software	5	N/A

The State has elected to use the modified approach to account for certain infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make

annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Advance from Federal Government

During the fiscal years ended June 30, 2011, the amount of unemployment insurance taxes collected by the Division from Delaware employers was not sufficient to cover the amount of benefits paid to Delaware residents. As a result, the unemployment fund received advances from the federal government to be used for benefit payments. Pursuant to Subchapter XII – *Advances to State Unemployment Funds, 42 U.S.C. §1321*, advances are made to the unemployment fund once all funds in the trust have been extinguished, and amounts borrowed must be no more than the aggregate amount necessary to provide benefit payments in any three-month period, as certified by the Secretary of Labor. These advances must be repaid as the unemployment fund is able. The *American Recovery and Reinvestment Act, Public Law 111-5, §2004*, provides that no interest shall accrue on advances to states covered by *Subchapter XII* during the period from the enactment of the law (February 11, 2009) through December 31, 2010. Interest on the outstanding balance began to accrue on January 1, 2011, and accrued interest totaled $1.3 million as of June 30, 2011. The outstanding advance balance totaled $62.5 million as of June 30, 2011.

Compensated Absences

It is the State's policy to permit employees to accumulate earned, but unused vacation and sick pay benefits. In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. In the government-wide and proprietary fund financial statements, the State has accrued a liability for compensated absences, recognizing the obligation to make future payments.

Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund Equity

In governmental fund type accounts, fund equity is called "fund balance." The fund balance amounts for governmental funds have been reclassified in accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned in note 16, Governmental Fund Balances.

When resources meeting more than one of the classifications (excluding nonspendable) are comingled in an account, assuming that expenditure meets the constraints of the classification, the assumed order of spending is restricted first, committed second, and finally assigned.

In proprietary funds, fund equity is called net assets. Net assets are comprised of three components; invested in capital assets, net of related debt; restricted; and unrestricted.

(d) Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables when entitlement occurs. All other federal reimbursement type grants are recorded as accounts receivable when the related expenditures or expenses are recognized. Related revenue is recorded subject to availability. Amounts not collected within 60 days of fiscal year-end are recorded as deferred revenue. In addition to monetary transactions, federal grants also include non-monetary transactions related to the supplemental nutrition assistance program.

(e) Litigation Revenue

In 1997, several states began litigation against defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to the users of tobacco products. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states until 2025. The State's share of the estimated $200 billion settlement amounted to $774.5 million. Amounts to be remitted are calculated based on a variety of specific settlement provisions. Future tobacco product sales are one key factor used in determining periodic payment amounts. A receivable of $13.6 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of $26.4 million are recorded in the general fund as part of other revenue and as miscellaneous general revenue on the government-wide statement of activities. Expenditures of monies received under the Master Settlement Agreement are authorized by legislation and are dedicated to health care and related programs.

NOTE 2 CASH, INVESTMENTS AND RESTRICTED ASSETS

Cash Management Policy and Investment Guidelines

The State Treasurer maintains the majority of the deposits and investments of the primary government and uses professional money managers to invest the State's deposits according to guidelines set in the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) by the State's 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 DPERS and the OPEB Trust and money held under the State deferred compensation program. By law, all deposits and investments belonging to the State are under the control of the State Treasurer except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board in various pooled investment funds (State Investment Pool). The deposit and investment policies of those entities may differ from those of the State Treasurer. Typically, these agencies follow the deposit and investment policies of the State Treasurer in an effort to minimize deposit and investment risks.

As mandated by State statutes, the State's funds shall be invested pursuant to the prudent person standard as defined in the Policy. The prudent person standard allows the Board to establish investment policies based on investment criteria that it defines, and it allows the Board to delegate investment authority to investment professionals. This standard of care not only permits but also encourages diversifying investments across various asset classes.

The objectives and guidelines, as outlined in the Policy, apply to all cash and special purpose funds for which the State is financially accountable. These funds are categorized as outlined below:

- Cash Accounts. Cash accounts divide the State's available cash into three parts:

    - Collection and Disbursement Accounts: The State maintains an amount of cash in its general collection and disbursement accounts sufficient to meet its outstanding obligations.
    - Cash and Liquidity Accounts: The majority of the State's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts are managed and invested by investment managers, selected by the Board through competitive bid, in order to maximize the return to the State while, at the same time, providing for safety of principal and sufficient liquidity for the State to meet its cash needs. The State manages its short-term investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any needs.
    - Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the Board directs the funding of a third part. This account is managed and invested by an investment manager or managers, selected by the Board after a competitive bid, in order to maximize the return on said money to the State while providing for the safety of principal. The State manages its intermediate investments to ensure they are made under circumstances and in amounts in which the State would not be forced to liquidate them at a loss.

- Special Purpose Accounts. There are two primary types of special purpose accounts:

    - Endowment Accounts: Endowment accounts consist of funds set-aside for specified purposes.
    - Authority Accounts: The State's Authorities (state agencies, local school districts and component units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

The Policy specifies the types of investments these managers can make; the maximum percentage of assets that may be invested in particular instruments; the minimum credit quality of these investments; and the maximum length of time the assets can be invested. The Policy provides, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. The following investments are permissible for all funds under the review of the Board, subject to percentage limitations of the account.

- U.S. government securities
- Government agency securities
- Certificates of deposit, time deposits, and bankers acceptances
- Corporate debt instruments
- Repurchase agreements
- Reverse repurchase agreements
- Money market funds
- Canadian treasury bills
- Canadian agency securities
- Mortgage-backed and asset-backed securities
- Municipal obligations

Additional permissible investments for special purpose accounts only:

- Guaranteed investment contracts
- Asset-backed securities and trust certificates

The primary government's accounts are categorized as "authority accounts". At June 30, 2011, investments of the primary government were primarily in commercial paper, corporate obligations, government agency bonds and notes, and municipal obligations. All of these meet the objectives defined by the Policy. The State's Cash Management Policy Board *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* is available by request through the State of Delaware Treasury.

Risks

The following deposits and investments disclosure of the primary government excludes the OPEB Trust and DPERS, which are described on pages 57 - 64.

Custodial Credit Risk

Deposits

For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party.

All State deposits are required by law to be collateralized by direct obligations of, or obligations, which 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. Bank Watch. The Board has also determined that State demand deposits need not be collateralized, provided that any bank that holds these funds has had for the last two years a return on average assets of 0.5% 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.

At June 30, 2011, the carrying amount of the primary government's deposits was $443.3 million and the bank balance was $493.7 million. Of the $493.7 million bank balance, $171.2 million was fully insured; $30.2 million represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury; and the remaining $322.5 million was subject to custodial credit risk because they were uninsured and uncollateralized. Included in the primary government's deposits are agency funds. The carrying amount of the agency fund's deposits was $24.0 million and the bank balance was $29.9 million. Of the $29.9 million bank balance, $19.3 million was fully insured and the remaining $10.6 million was subject to custodial credit risk because the deposits were not covered by depository insurance or the deposits were uncollateralized, collateralized with securities held by the pledging financial institutions, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name. State law permits the Treasurer to deposit in a financial institution in the State in which the Treasurer has custody if the deposit is interest bearing; the financial institution provides collateral that has a market value that exceeds the amount by which a deposit exceeds the deposit insurance, and a custodian holds the collateral.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of

an outside party may not be recovered. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the government's name.

At June 30, 2011, the primary government's investments were $2,319.0 million. Of the primary government's investments, $390.6 million was fully insured and collateralized. Included in the primary government's investments of $2,319.0 million are agency funds. The amount of the agency funds' investments was $26.9 million.

The following table provides information on $1,928.4 million of the primary government's investments that are exposed to custodial credit risk; $917,451 of this amount represents the agency funds' investments:

Investment Type	Fair Value (Expressed in Thousands)
Corporate obligations	$ 489,169
Municipal obligations	18,342
U.S. government obligations	935,902
Other obligations	235,874
Commercial paper	87,588
Certificates of deposit	161,523
Total	$ 1,928,398

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Also, the terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The State manages interest rates using the segmented time distribution and effective duration methods. The State approves and contracts with different investment managers of fixed income securities in order to manage the exposure to interest rate risk with each different manager focusing on different goals of yield periods or duration of maturities of their particular portion of the investment pool. The Policy provides either maturity or duration limitations for the various investment pools. The interest rate risk inherent in the portfolio is monitored by measuring the weighted average maturity and/or duration.

Effective duration measures the expected change in value of a fixed income security for a given change in interest rate. This method takes into account the likely timing and amounts of variable cash flows for bonds with call options and prepayment provisions.

The following table presents the fair value and effective duration of the primary government and agency fund investments by investment type at June 30, 2011:

Investment Type	(Expressed in Thousands)	**(in years)**
Corporate obligations	$ 489,169	1.22
Municipal obligations	18,342	1.40
U.S. government obligations	1,089,537	1.05
Other obligations	236,625	1.62
Commercial paper	322,932	0.24
Certificates of deposit	162,380	0.60
	$ 2,318,985	

Although the Policy does not limit total portfolio maturities, it provides maximum maturity restrictions for each of the investment account types as described below:

- Cash Account Investment. The maximum maturity for any investment at the time of purchase for the cash account is one year.
- Liquidity Accounts. The maximum maturity for any investment at the time of purchase for the liquidity accounts is two years.
- Reserve Cash (Intermediate) Account. The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years.
- Endowment Accounts. The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years. The Board shall consider tailoring maturity restrictions to meet specific purposes for endowment accounts to be established in the future.
- Authority Operating, Bond and Debt Service Reserve Fund Accounts. Maturity Restrictions: The maximum maturity for any investment at the time of purchase is 10 years, except when prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

As of June 30, 2011, the primary government and agency funds had the following debt investments and maturities:

Investment Maturity
(Expressed in Thousands)

		Investment Maturities			
	Fair Value	**Less Than 1**	**1 to 5**	**6 to 10**	**More than 10**
Long Term Investments					
Corporate obligations					
Corporate bonds	$ 422,678	$ 118,682	$ 289,986	$ 13,904	$ 105
Asset-backed securities	66,491	254	66,237	-	-
Municipal obligations	18,342	6,445	7,386	3,108	1,402
U.S. government obligations					
U.S. Treasury bonds, notes	104,453	-	97,057	7,397	-
U.S. Agency bonds, notes	520,317	-	461,698	24,162	34,457
Non US Gov't Obligations	30,593	16,618	11,195	2,780	-
Other obligations					
Private placements	222,789	56,727	166,061	-	-
Miscellaneous bonds				-	-
Pooled investments	13,837	13,837	-	-	-
Short Term Investments					
Commercial paper	322,931	322,832	100	-	-
Certificate of deposit	162,379	119,074	43,306	-	-
U.S. government obligations					
U.S. Treasury bonds, notes	214,977	202,593	11,200	1,183	-
U.S. Agency bonds, notes	219,198	156,026	33,989	29,184	-
Total Investments	**$ 2,318,985**	**$ 1,013,088**	**$ 1,188,215**	**$ 81,718**	**$ 35,964**

Credit Risk

Credit risk of investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Policy requires that the State's investments in asset-backed securities be rated AAA by a major rating agency. Corporate debt instruments must be rated by Standard and Poor's Ratings Services (S & P) and/or Moody's Investor Service (Moody's) and/or Fitch Ratings (Fitch) as follows:

Investment	**S & P**	**Moody's**	**Fitch**
Commercial paper	A-1	P-1	F1
Senior long-term debt	A	A	A
Corporate bonds	AA	Aa	AA

Additionally, the State has multiple non-rated/pooled accounts which represent immaterial amounts when treated individually. The Board permits the types of investments which are held in these accounts.

The following table presents the State's investments which were rated by S & P as of June 30, 2011 the ratings are presented using S & P's rating scale:

Credit Risk - Quality Ratings
(Expressed in Thousands)

Investment Type	TSY	AGY	AAA	AA	A	BBB	A-1	NR
Long Term Investments								
Corporate obligations								
Corporate bonds	$ -	-	$ 92,772	$ 289,076	$ 40,829	-	-	$ -
Asset-backed securities	-	-	44,724	-	-	-	-	21,767
Municipal obligations	-	-	5,173	10,646	313	1,184	-	1,025
U.S. government obligations	-	-	-	-	-	-	-	-
U.S. Treasury bonds, notes	104,452	-	-	-	-	-	-	-
U.S. Agency bonds, notes	-	520,314	3	-	-	-	-	-
Other obligations	-	-	15,174	9,841	-	-	-	5,578
Canadian	-	-	-	-	-	-	-	-
Private placements	611	-	161,047	53,593	4,141	-	-	3,397
Miscellaneous Bonds	-	-	-	-	-	-	-	-
Pooled investments	-	-	-	-	-	-	-	13,837
Short Term Investments								
Commercial paper	-	-	-	-	-	-	304,938	17,994
Certificate of deposit	-	-	-	21,669	-	-	60,320	80,391
U.S. government obligations	-	-	-	-	-	-	-	-
U.S. Treasury bonds, notes	214,976	-	-	-	-	-	-	-
U.S. Agency bonds, notes	-	219,198	-	-	-	-	-	-
Total Investments	**$ 320,039**	**$ 739,512**	**$ 318,893**	**$ 384,825**	**$ 45,283**	**$ 1,184**	**$ 365,258**	**$ 143,989**

TSY = Treasury

AGY = Agency which represents securities issued by government -sponsored enterprises that are not rated, but have an implied but not explicit guarantee from the federal government.

NR = Non-Rated Pooled accounts

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the State's investments in a single issuer (5% or more of total investments). When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The investments in obligations explicitly guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure.

The Policy provides the following percentage of account limitations, valued at market. Investments due to mature in one business day may be excluded from the computation of said limitations.

A. U.S. Government - no restrictions.

B. Government agency - 50% total; 20% in any one agency.

C. Certificates of deposits, time deposits and bankers acceptances - 50% total; 5% in any one issuer.

   1. Domestic - No additional restrictions.
   2. Non-domestic - 25%, 5% in any one issuer.
   3. Delaware domiciled – Not more than the lesser of $10 million or 25% of an issuer's total equity capital may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)

D. Corporate debt - 50% total; 25% in any one industry; 5% in any one issuer, 5% of any issuer's total outstanding securities.

   1. Domestic - No additional restrictions.
   2. Non-Domestic - 25%; 5% in any one issuer.

E. Repurchase agreements - 50% total.

F. Reverse repurchase agreements - 25% total.

G. Money market funds - 25% total; 10% in any one fund except for the Cash Account, which may invest 100% of the Account in the Delaware Local Government Investment Pool (DELGIP) Fund. The Investment Guidelines for the DELGIP Fund are defined in Appendix B of the Policy.

H. Canadian treasuries - 25% total; 10% in any one agency.

I. Canadian agency securities - 25% total; 10% in any one agency.

J. Mortgage-backed and asset-backed securities – 10% total (when combined with asset-backed securities and trust certificates if applicable).

K. Municipal obligations - 5% in any one issuer.

L. Guaranteed investment contracts - Permitted where it is prudent to match a specific investment instrument with a known specific future liability, subject to credit quality guidelines for commercial paper and corporate bonds and debentures and with adequate exit provisions in the event of the future downgrade of the issuer.

M. Asset-backed securities and trust certificates – 10% total (when combined with mortgage-backed and asset-backed securities if applicable).

At June 30, 2011, the State's investments have met the requirement of all the State's laws and policies, when applicable. There were no obligations that represented 5% or more of the primary government's investments, except for U.S. government securities, pooled and mutual funds.

Foreign Currency Risk

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment or deposit.
The Policy only permit investments denominated in U.S. dollars; therefore, the State's investments are not exposed to foreign currency risk.

Commitments

At June 30, 2011, the State did not enter into any commitment agreements with any investment managers for future funding of various asset classes.

OPEB Fund Trust (OPEB Trust)

Investment Policy

The State Board of Pension Trustees is responsible for the management and investment of the funds in the OPEB Trust. The Board authorized its Investment Committee to select the investment managers of the OPEB trust following the established investment guidelines for the Delaware Public Employees' Retirement System (System) until a separate investment policy is adopted for the OPEB Trust. The System follows the prudent person standard, which requires fiduciaries to discharge their duties solely in the interests of participants and their beneficiaries with such care, skill, prudence, and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise with similar character and with similar aims. The OPEB Trust investment objectives and policies currently include indexed exposure to approximate the System's policy benchmark. The Investment Committee regularly reviews the OPEB investment performance, and considers investment vehicles which strike a balance between risk and return while being mindful of the government's time horizon for the OPEB investments.

Delaware Public Employees' Retirement System (DPERS or System)

Investment Policy

There are no State statutes limiting allowable investments for the System. The investment decisions are dictated by the prudent person rule and the internal investment guidelines established by the Board as outlined below:

- Allocate a minimum of 20% of assets to fixed income investments such as bonds, cash equivalents, and certain real estate investments;
- Maintain a widely diversified portfolio, to minimize the risk of overexposure in any one market segment or investment style;
- Monitor the performance of all investment managers using specific benchmarks;
- Control exposure in illiquid asset classes;
- Review, re-examine, and reconfirm the operation of results of the investment process regularly;
- Identify new long-term opportunities for risk reduction and improved investment returns;

and

- Review actuarial assumptions to ensure consistency with capital market expectations.

For the fiscal year ended June 30, 2011, management of the System has operated in accordance with these policies, in all material respects.

Securities Lending

The System entered into a contract with its custodian to allow participation in its securities lending program. The objective of securities lending is to earn income and through a conservatively operated and well-controlled program. The System elected not to participate in the program during fiscal years 2011 and 2010, but may elect to participate at some time in the future.

Investments

The following is a listing of fixed income investments and cash equivalents and related maturity schedule which shows the System's exposure to interest rate risk as of June 30, 2011. It is the System's policy to classify corporate convertible bonds as equity securities because those securities generally convert to preferred equity interests upon maturity. Corporate convertible bonds in the amount of $648.0 million have been included in the chart below because they have maturity dates and are exposed to interest rate risk.

Delaware Public Employees' Retirement System (DPERS or System)
Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type/Sector	Fair Value	Less than 1	1 - 6	6 - 10	10 +
Asset backed securities	$ 905	$ -	$ -	$ 192	$ 713
Cash equivalents	372,016	372,016	-	-	-
Commercial mortgage-backed	1,897	-	-	-	1,897
Corporate bonds	782,815	156,162	242,976	228,810	154,867
Corporate convertible bonds	647,989	12,285	477,583	64,905	93,216
Government agencies	30,799	6,319	7,727	16,753	-
Government bonds	81,983	23,828	34,022	6,182	17,951
Municipal/provincial bonds	16,484	10,965	1,363	-	4,156
Pooled investments	714,939	-	-	714,939	-
Total	$ 2,649,827	$ 581,575	$ 763,671	$ 1,031,781	$ 272,800

Interest Rate Risk

The State has delegated an investment policy for the System to the Board and its Committees. The Investment Committee sets its own guidelines in conjunction with the Board to manage and review the System's exposure to fluctuating interest rates. Interest rate risk is a consideration when establishing and reviewing investment manager guidelines and asset allocation. Both topics are included in the Statement of Investment Policies and Objectives which is published on the System's website.

Credit Risk

The System's general investment policy is to apply the prudent-person rule to all risks incurred by the fund: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The System has no investment policy that would further limit its investment choices related to credit risk. As of June 30, 2011, the System's fixed income investments and cash equivalents had the following credit risk characteristics as indicated in the following schedule (expressed in thousands):

Moody's Ratings or Comparable	Percent of Total Fund	Market Value
AAA to A	16.6%	$ 1,271,265
BBB to B	11.1%	844,098
CCC to C	1.3%	97,674
Less than C	0.0%	419
Less than C	0.1%	6,499
Not Rated	5.6%	429,872
Total:	34.7%	$ 2,649,827

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party. At June 30, 2011, the $455.1 million carrying amount of the System's cash and cash equivalents was comprised of $450.9 million of short-term investments and $4.2 million in deposits. The $4.2 million bank balance of deposits was subject to custodial credit risk because it was uninsured and uncollaterized. This amount includes pooled deposits of $239,000 which were held by the State Treasurer's Office.

Investment Concentration Risk

As of June 30, 2011, the System held no concentration of investments in an individual issuer in excess of 5% of the fair value of the System's net assets.

Management Fees

The System paid $25.7 million in management fees to the alternative investment funds and partnerships for the fiscal year ended June 30, 2011. These fees are netted against investment income. Management fees charged at the underlying fund level for the investments held by the First State Independence Fund I, LLC ranged from 1% to 2% of net assets, plus a performance fee of 20% on positive investment earnings, which were netted against earnings.

Investment Commitments

The System has commitments to invest up to an additional $642.4 million in venture capital limited partnerships in varying amounts as of June 30, 2011, to be drawn down, as called upon at any time during the term of each partnership, which is usually a ten-year period. Generally, these commitments are self-funding, in that the capital calls are met using cash flows generated by the existing venture capital/limited partnerships as managers in this asset class realize the proceeds of their investments.

Foreign Investments

Foreign investments include equity securities, bonds, cash, and cash equivalents. The following is a listing of the System's foreign assets as of June 30, 2011. The listing includes $4.9 million of investments of domestic issuers which have been classified as domestic, but are denominated in a foreign currency.

Investment Types
(Expressed in Thousands)

Currency	Fair Value in U.S. Dollars	Equities	Fixed Income	Cash and Cash Equivalents
Australian dollar	$ 42,589	$ 30,163	$ 12,248	$ 178
Brazilian real	39,752	29,418	10,334	-
British pound sterling	111,599	110,716	855	28
Canadian dollar	69,995	33,018	36,878	99
Chinese yuan renminbi	4,868	4,868	-	-
Danish krone	13,818	13,818	-	-
Euro	272,496	256,236	14,739	1,521
Hong Kong dollar	68,627	68,581	-	46
Indonesian rupiah	22,156	13,507	8,581	68
Japanese yen	71,497	71,269	-	228
Mexican peso	9,447	-	9,447	-
New Zealand dollar	21,681	-	21,681	-
Norwegian krone	19,857	3,491	16,366	-
Philippine peso	6,866	6,866	-	-
Singapore dollar	14,581	8,953	4,138	1,490
South Korean won	14,001	14,001	-	-
Swedish krona	30,856	30,856	-	-
Swiss franc	27,679	27,417	-	262
Thai baht	6,551	6,551	-	-
Turkish Iira	7,209	7,209	-	-
Total foreign currencies	$ 876,125	$ 736,938	$ 135,267	$ 3,920
Foreign issued investments denominated in U.S. dollars	564,491	503,972	60,519	-
Pooled international investments denominated in U.S. dollars	207,221	207,221	-	-
Total	$ 1,647,837	$ 1,448,131	$ 195,786	$ 3,920

Derivatives

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels, or currency exchange rates. In June 1994, the Board adopted a formal written policy on the use of derivatives which is reviewed periodically. This policy, as amended, was incorporated in the formalized investment policy adopted by the Board during fiscal year 2007 and reviewed during fiscal year 2008. Some selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are stated in the manager's contract and are monitored on an ongoing basis. Derivatives serve a variety of useful purposes for the System, including the reduction of foreign exchange risk, the minimization of transaction costs and as a means of implementing value added strategies to enhance returns. If the use of derivatives in a portfolio strategy results in some leverage, that leverage is never permitted to expose the Fund to a loss greater than the amount committed to that strategy.

The following lists principal categories of derivatives and their uses during the year:

Category	Purpose
Foreign exchange forward contracts	Hedge currency risk of investments denominated in foreign currencies; enhance return
Exchange traded futures contracts	Reduce transaction costs; hedge equity market risk; control fixed income; counterbalance portfolio duration; enhance return
Exchange traded options contracts	Enhance return; reduce transaction costs
Total return equity swaps	Hedge equity market risk exposure

Generally, derivatives are subject both to market risk and counterparty risk. The derivatives utilized by the System typically have no greater risk than their physical counterparts, and in many cases are offset by exposures elsewhere in the portfolio (for example, a short S&P 500 futures contract partially hedging a long position in S&P 500 securities). Counterparty risk, the risk that the "other party" to a contract will default, is managed by utilization of exchange traded futures and options where practical (in which case the futures exchange is the counterparty and guarantees performance) and by careful screening of counterparties where use of exchange traded products is impractical or uneconomical.

Derivative securities are priced and accounted for at their fair value. For exchange traded securities such as futures and options, closing prices from the securities exchanges are used. Foreign exchange contracts are valued at the price at which the transaction could be settled by offset in the forward markets.

The Investment Committee monitors the System's derivative holdings on a regular basis to ensure that the derivatives used by managers of the System will not have a material adverse impact on its financial condition. Total derivative instruments at June 30, 2011 were not material to the system.

Risk and Uncertainty

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk inherent in investment securities, it is possible that changes in the values of investment securities will occur in the near term and that such change could affect the amounts reported.
The actuarial accrued plan liabilities are measured based on assumptions pertaining to the interest rates, inflation rates and employee demographic behavior in future years. While these assumptions have been chosen after review of past history of the covered participants, it is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

COMPONENT UNITS

Diamond State Port Corporation (DSPC)

At June 30, 2011, the carrying value and the bank balances of the DSPC's deposits were $1.9 million and $2.2 million, respectively. Of the bank balances, $2.2 million is insured by the Federal Deposit Insurance Corporation (FDIC).

Riverfront Development Corporation (RDC)

At June 30, 2011, the book balance of RDC's deposits was $251,185 and the bank balance was $272,403. As of June 30, 2011 and 2010, the RDC had cash and cash equivalents of $32,667 and $4,642, respectively, held by the State of Delaware Treasurer's Office in Dover, Delaware. Deposits include $116,677 and $170,465, respectively, of restricted cash and cash equivalents that have been assigned to the bank as collateral for repayment in the event of a default under the bond or collateral agreements. The deposits held by the State investment pool are uninsured and uncollateralized.

Delaware State University (DSU)

At June 30, 2011, the carrying value and bank balance of DSU's deposits were $20.4 million and $25.6 million, respectively. Of the bank balances, $1.0 million is insured by the FDIC and $24.6 million is subject to custodial credit because it is uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization. An additional $8.0 million of cash and cash equivalents related to unexpended State appropriations are held at the State Treasurer's office. The credit risk for these deposits depends on the investment decisions made by the State Treasurer's office.

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

At December 31, 2010, the DTCC Foundation's carrying value and bank balance was $1,207,311 and $250,000, respectively. The Foundation maintains cash balances at one financial

institution located in Delaware. Accounts at the institution are insured by the FDIC up to $250,000. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware Charter Schools

At June 30, 2011, the Delaware Charter Schools deposits carrying value was $26.7 million. Deposits include $24.3 million held in the State Investment Pool. Carrying value of the remainder of deposits was $2.3 million. Bank balances totaled $2.3 million, consisting of $1.1 million insured by FDIC and $1.2 million uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware State Housing Authority (DSHA)

Investment Policies

DSHA has an investment policy that encompasses all moneys related to the issuance of bonds, as well as, all funds otherwise held by DSHA. DSHA seeks first and foremost to ensure safety of principal, and secondly, to attain the highest possible return available given the risk constraints.

DSHA is allowed to invest in certain qualified investments as defined by amended Subchapter II, Section 4013, Chapter 40, Title 31, of the Delaware Code and DSHA's formal investment policy. Subject to certain limitations, such as the credit ratings on bonds and the capitalization level of depositories, "qualified investments" include:

a. Obligations of or explicitly guaranteed by the U.S. or Delaware state governments.
b. Obligations of U.S. government-sponsored enterprises and U.S. government agencies and instrumentalities.
c. Obligations of depositories and other financial institutions.
d. Bankers' acceptances.
e. Commercial paper.
f. Money market mutual funds.
g. Corporate debt obligations.
h. The State of Delaware investment pool with the State Treasurer's Office.
i. Other investment arrangements made pursuant to an investment agreement authorized by a resolution of DSHA.

Certain federal funds administered by DSHA are subject to additional limitations within the qualified investments listed above.

For the State of Delaware Investment Pool, fair value of the pool shares is the same as the carrying value of the pool shares. The State of Delaware Cash Management Policy Board provides oversight for this pool.

Investments

Investments are presented at fair value. Fair values are determined by quoted market prices based on national exchange prices for all investments, except for the State of Delaware Investment Pool. The State pool is valued based on the pool's share price. The table below lists investments and their maturities:

Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type	Fair Value	Less than 1	1 - 5	5 - 10	10 - 20	20 - 30	More than 30
U.S. treasury notes	$ 26,436	$ 21,723	$ 4,353	$ -	$ 334	$ -	$ -
US treasury strips	1,197	301	831	-	133	-	-
U.S. treasury bonds	24	-	-	-	-	19	-
U.S. treasury bills	4,894	4,900	-	-	-	-	-
U.S. agencies	90,209	73,209	16,765	-	-	-	-
Certificates of deposit	39	-	39	-	-	-	-
Commercial paper	141	141	-	-	-	-	-
Corporate notes	852	250	567	-	-	-	-
Investment agreements	116,661	101,198	10,983	-	1,147	3,333	-
Money market savings accounts	7,597	7,597	-	-	-	-	-
Bank money market accounts	32,851	32,851	-	-	-	-	-
State of Delaware investment pool	7,231	7,231	-	-	-	-	-
Total Investments:	$ 288,132	$ 249,401	$ 33,538	$ -	$ 1,614	$ 3,352	$ -

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the DSHA's investment policy places limits on maturities for the various funds as follows:

a. Single Family & Multi-Family Program Funds: Investment contracts for bond program funds should have a maturity that matches the final bond maturity to minimize reinvestment risk. Individual investments of bond program funds should match anticipated cash requirements or provide sufficient liquidity to allow funds to be accessed to meet bond resolution requirements without incurring material principal losses.

b. Federal Program Funds: HUD funds held by DSHA should have a maximum maturity of one year. HUD-related funds held by DSHA (escrows, replacement reserves, residual receipts) shall have a maximum maturity of three years.

c. General Fund: The Operating Reserve Account, which is managed externally, should have a maximum maturity at the time of purchase of ten years. However, specific investments may be transferred into the account from time to time that may have a longer maturity. DSHA may further reduce the maximum maturity of the operating reserve investments from time to time.

d. Other DSHA funds should be invested with a maturity that matches, or is prior to, the

anticipated time at which the funds will be needed.

e. DSHA investments (other than deposit accounts, money market fund shares, or deposits with the State Treasurer's Office) should have a fixed maturity date by which principal and accrued interest will be fully repaid. DSHA is not permitted to enter into investments that have an expected maturity date that can be extended, depending upon market conditions.

Credit Risk

DSHA's general investment policy is to make investments with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as, the probable income to be derived. DSHA's investment policy limits its investment choices as mentioned above under Investments. For DSHA's Single and Multi-Family Programs, the investment rating must be equal or exceed the bond rating. DSHA's Operating Reserve Account has a specific credit quality requirement. Corporate debt obligations and shares of money market mutual funds shall have a long-term rating of AA and/or AA, respectively by Standard & Poor's (S&P) and Moody's at the time of purchase. As of June 30, 2011, DSHA's investments were rated as follows:

Ratings (S & P)
(Expressed in Thousands)

Investment Type	AAA	AA+	AA-	A+	A	BBB+	NR
U.S. Agencies	$ 18,396	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Notes	-	441	-	411	-	-	-
Commercial Paper	-	-	-	-	-	-	141
Total	$ 18,396	$ 441	$ -	$ 411	$ -	$ -	$ 141

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, DSHA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of DSHA's $288.1 million investment balance, $116.7 million represents deposits held by various Guaranteed Investment Contract (GIC) providers under investment agreements. These accounts are uninsured and uncollateralized. The funds are specifically identified for DSHA, but the custodial credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the GIC provider whose rating must equal or exceed that of the bond rating. The bank and savings money markets must be collateralized at 102% or greater by securities pledged and identified as held in DSHA's name. Although the State Investment Pool is not collateralized, the State's Cash Management Policy Board requires that investments meet certain ratings, investment types and maturity criteria. DSHA's investment policy does not limit the amount of

securities that can be held by the counterparties.

Diamond State Port Corporation (DSPC)

Assets restricted for capital improvements totaled $16.8 million as of June 30, 2011. These assets are invested in a mutual funds account with a Moody's rating of AAA.

Delaware State University (DSU)

Investments of DSU totaled $34.5 million stated at quoted market value, which consist of pooled investments. The investments are owned by DSU and are subject to categorization.

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

Investments of the DTCC Foundation totaled $10.4 million, stated at quoted market value. These investments consist of pooled investments where the DTCC Foundation does not own specific securities. An additional $56,091 is invested in life insurance, recorded at the cash surrender value.

NOTE 3 RECEIVABLES

All trade, loan and tax account receivables are recorded net of an allowance for doubtful accounts. In the governmental fund financial statements, receivables that will not be available within 60 days of year-end are recorded as deferred revenue. In the government-wide financial statements, receivables not expected to be collected during the subsequent year are recorded as noncurrent.

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable and available at June 30, 2011. Uncollectibility for taxes receivable primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

The State levies taxes on real property through its school districts. Each of the three counties of the State establishes the assessed values of real estate and bills and collects its own property taxes. Local school property taxes are levied by local school districts based on the assessed value of real estate, as determined by county taxation formulas. Taxes are levied on July 1 and are payable on or before September 30. Taxes paid after the payable date are assessed a 6% penalty for nonpayment and 1% interest per month thereafter. Taxes are billed and collected by the counties with funds remitted to the local school district to be used for the local share of school operating costs and debt service on general obligation bonds issued for capital improvements. Receivables as of year-end for the State's individual funds, including the applicable allowances for uncollectible accounts, are as follows:

Receivables - Primary Government
Governmental Activities
(Expressed in Thousands)

	General Fund	Federal Funds	Local School District Funds	Total Receivables
Receivables:				
Taxes	$ 229,533	$ -	$ 32,813	$ 262,346
Interest	-	-	-	-
Accounts	914,014	132,493	1,502	1,048,009
Loans and notes	39,000	265,351	-	304,351
Intergovernmental	-	208,039	-	208,039
Total receivables	1,182,547	605,883	34,315	1,822,745
Allowance for doubtful accounts	(1,010,201)	(121,939)	(164)	(1,132,304)
Total receivables, net	$ 172,346	$ 483,944	$ 34,151	$ 690,441
Amounts not scheduled for collection during the subsequent year	$ 59,375	$ 248,421	$ 18,558	$ 326,354

Receivables - Primary Government
Business-Type Activities
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total Receivables
Receivables:				
Taxes	$ 42,762	$ -	$ -	$ 42,762
Interest	-	-	695	695
Accounts	16,869	6,149	14,030	37,048
Loans and notes	-	-	-	-
Intergovernmental	4,216	-	21,492	25,708
Total receivables	63,847	6,149	36,217	106,213
Allowance for doubtful accounts	(28,104)	(734)	-	(28,838)
Total receivables, net	$ 35,743	$ 5,415	$ 36,217	$ 77,375
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ -	$ -

Receivables as of year-end for the State's component units, including the applicable allowances for uncollectible accounts, are shown below:

Receivables
Component Unit Activities
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	Total Receivables
Receivables:						
Interest	$ 42,280	$ -	$ 9	$ -	$ -	$ 42,289
Accounts	1,361	2,807	383	15,571	229	20,351
Loans and Notes	906,650	-	1,056	67	700	908,473
Intergovernmental	515	-	-	5,404	-	5,919
Total receivables	950,806	2,807	1,448	21,042	929	977,032
Less: Allowance for doubtful accounts	(1,141)	(59)	(287)	(5,068)	-	(6,555)
Total receivables, net	$ 949,665	$ 2,748	$ 1,161	$ 15,974	$ 929	$ 970,477
Amounts not scheduled for collection during the subsequent year	$ 898,874	$ -	$ 417	$ 67	$ -	$ 899,358

Deferred Revenues

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Amounts considered unearned federal grant drawdown's are reported as deferred revenue.

The various components of deferred revenue and unearned revenue reported at year-end in the governmental funds are as follows:

Deferred Revenues
(Expressed in Thousands)

Unavailable		
Taxes receivable:	$	68,491
Intergovernmental Receivables		53,901
Loans and notes receivables		301,074
Accounts receivables		61,793
Subtotal unavailable		485,259
Unearned		
Advance park reservation fees		946
Federal grant advance drawdowns		15,348
Subtotal unearned		16,294
Total deferred revenue	$	501,553

NOTE 4 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

(a) Due From/Due to Other Funds

Receivables reported as "due from other funds" and the related payables reported as "due to other funds" represent amounts owed to State organizations by other organizations within the State reporting entity. Amounts receivable from or payable to other levels of government are reported as intergovernmental receivables or payables. The composition of due from/due to balances at June 30, 2011, expressed in thousands, is as follows:

Receivable Fund	Payable Fund	Amount
General	Federal	$ 52,568
	Enterprise Fund Lottery	633
	Total	$ 53,201

The amounts due from the federal fund are recorded for borrowings to eliminate negative balances in the State Investment Pool. The amount for the federal fund is created by expenditures relating to reimbursement type federal grant revenues. These costs result in a negative balance in the State Investment Pool.

The amount due from the Lottery fund (reported as an internal balance on the statement of net assets), represents profits required by law to be transferred to the general fund.

(b) Transfers In From/Out to Other Funds

Transfers in and transfers out from/to other funds in the statement of revenues, expenditures and changes in fund balance, the statement of revenues, expenses and changes in fund net assets, proprietary funds and payment from the primary government in the statement of activities-component units represent transfers between funds. Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) use restricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) move profits from the Lottery fund as required by State law.

A schedule of transfers in and transfers out for the year ended June 30, 2011 is presented below (expressed in thousands):

	Transfers In	Transfers Out
Governmental funds		
General	$ 485,187	$ 56,193
Federal	-	25,163
Local school district	64,454	95,562
Capital projects fund	-	51,832
Proprietary funds		
Lottery	-	342,895
DelDOT	27,233	5,229
Total of all funds	$ 576,874	$ 576,874

NOTE 5 GENERAL OBLIGATION BONDS

General obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for State administrative operations, public and higher education, public and mental health, corrections and conservation purposes and for maintenance and construction of highway facilities.

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which the bonds are issued provide that all bonds issued shall be direct obligations of the State; that is, the bonds are secured by the pledge of the full faith and credit of the State. General obligation bonds are redeemed over a period not to exceed 20 years, generally from available resources in the general fund. Accordingly, the State has generally issued 10- and 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at redemption prices not to exceed 100% of par value.

On October 28, 2010, the State issued $310.7 million of its general obligation bonds maturing

between July 1, 2011 and July 1, 2030. The bonds consist of Series 2010B, $135.3 million traditional tax-exempt bonds; Series 2010C, $115.8 million federally taxable Build America Bonds; and Series 2010D, $59.6 million federally taxable Qualified School Construction Bonds. Series 2010B bonds included $51.1 million in principal issued to refund higher priced bonds resulting in a net present value savings of $3.4 million, or 6.3% of the principal refunded. The refunding bonds, together with $84.3 million issued for new projects, were sold to retail and institutional investors, will mature between July 2011 and July 2024 and bore coupons between 2% and 5%. The Series 2010C and 2010D bonds, which were designated as Build America Bonds and Qualified School Construction Bonds for the purposes of the American Recovery and Reinvestment Act of 2009, are federally taxable bonds. As such, the State will elect to receive a cash subsidy from the U.S. Treasury of 35% of the interest payable on the Series 2010C bonds and a cash subsidy of 100% of the interest payable on the Series 2010D bonds. The coupons on the taxable bonds ranged from 3.1% to 4.6% and matured between July 2019 and July 2030.

Bonds issued and outstanding totaled $1,612.6 million at June 30, 2011. Of this amount, $535.9 million is supported by property taxes collected by the local school districts. During fiscal year 2011, the local school district funds transferred $59.6 million of property tax revenue to the State to meet the required debt service on their share of the debt.

The State is authorized to issue an additional $190.5 million of general obligation bonds at June 30, 2011. Interest rates and maturities of the outstanding general obligation bonds are detailed as follows:

General Obligation Bonds
(Expressed in Thousands)

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding at June 30, 2011
211	GO 2010D	4.550%	2029	$ 59,580
213	GO 2010C	3.100%-4.600%	2030	115,775
212	GO 2010B2	5.000%	2023	95,570
211	GO 2010B1	2.000%-4.000%	2024	39,740
210	GO 2010A2	2.000%-3.000%	2018	26,250
209	GO 2010A1	1.500%-5.000%	2024	123,375
208	GO 2009D	3.700%-5.300%	2029	179,315
207	GO 2009C2	2.000%-3.000%	2024	44,685
206	GO 2009C1	3.000%-5.000%	2027	268,980
205	GO 2009B	4.750%-5.000%	2026	92,650
204	GO 2009A2	4.750%-5.000%	2017	5,275
203	GO 2009A1	4.750%-5.000%	2029	77,525
202	GO 2008B	4.750%-5.000%	2016	64,260
201	GO 2008A	3.000%-5.000%	2016	6,100
200	GO 2007A	4.000%-5.000%	2027	108,950
199	GO 2006C	0%	2022	1,433
198	GO 2006B	4.000%-5.500%	2026	88,875
197	GO 2006A	3.75%-4.500%	2026	14,630
196	GO 2005D	3.50%-5.0%	2025	66,600
195	GO 2005C	5%	2023	45,335
194	GO 2005B	2.625%-5.0%	2024	16,080
193	GO 2005A	2.25%-4.25%	2025	2,670
192	QZAB 2004B	0%	2020	224
191	GO 2004A	3.0%-6.0%	2024	53,310
190	QZAB 2003D	0%	2018	908
189	GO 2003C	4.0%-6.0%	2011	9,000
188	GO 2003B	4.0%-5.0%	2011	2,350
186	QZAB 2002B	0%	2016	760
184	QZAB 2001B	0%	2011	649
170	GO 1992B	4.7%-6.1%	2012	1,771
		Total, gross		1,612,625
		Plus: unamortized bond premium		136,670
		Less deferred bond issuance costs		(54)
		Total general obligation bonds		$ 1,749,241

The following table sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2011:

Total General Obligation Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2012	$ 139,671	$ 73,320	$ 212,991
2013	144,659	66,367	211,026
2014	142,700	57,647	200,347
2015	128,715	51,332	180,047
2016	122,745	45,276	168,021
2017-2021	449,647	154,612	604,259
2022-2026	295,903	76,412	372,315
2027-2031	188,585	21,399	209,984
Total	$ 1,612,625	$ 546,365	$ 2,158,990

Changes in general obligation bonded debt during the year ended June 30, 2011 are summarized in Note 10.

In prior years, the State has defeased certain by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and has been removed as a liability from the government-wide financial statements. At June 30, 2011, a total of $355.8 million of defeased bonds were outstanding.

NOTE 6 REVENUE BONDS

Revenue Bonds

The State Constitution empowers certain State agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. These bonds pledge income derived from acquired or constructed assets or some other stream of revenues to retire the debt and pay related interest.

Primary Government

DelDOT Fund

Delaware Transportation Authority (Authority)

The Authority is subject to oversight by the Department of Transportation and is included in the DelDOT fund. The Authority assists in the implementation of the State's plans and policies regarding the coordination and development of a comprehensive, balanced transportation system for the State. It has the power to develop a unified system of air, water, vehicular and specialized

transportation in the State. The Authority includes the Transportation Trust Fund and the Delaware Transit Corporation. The Secretary of the Department of Transportation, with consent of the Governor, appoints the Authority's Director.

To assist the Authority in financing a unified transportation system, the State created a Transportation Trust Fund (the Trust Fund) within the Authority which receives all receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes and motor vehicles fees imposed and collected by the State and deposited in the Trust Fund, and revenue from the Delaware Turnpike, which the Authority owns and operates. The Authority also has the power to issue bonds, with legislative authorization, to finance improvements to the State's transportation system. Debt issued by the Authority does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenue, motor vehicle document fees, and motor vehicle registrations. The Authority may apply Trust Fund revenue in excess of debt service requirements for transportation projects, subject to legislative authorization, and may pledge any or all of this revenue to secure financing for these projects.

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore not reported as a liability. At June 30, 2011, the amount of defeased debt outstanding amounted to $62.1 million.

The Authority had a total of $235.6 million in authorized but unissued revenue bonds at June 30, 2011. Bonds outstanding at June 30, 2011 amounted to $1,209.2 million and are presented as follows:

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding At June 30, 2011
Transportation System Senior Revenue Bonds - Series			
2002	4.0% - 5.25%	2022	$ 94,215
2003	4.5% - 5.0%	2023	126,955
2004	4.0% - 5.0%	2024	145,205
2005	4.25% - 5.0%	2025	134,245
2006	3.5% - 5.0%	2026	111,600
2007	4.0% - 5.0%	2021	70,945
2008	4.0% - 5.0%	2028	77,275
2008	4.0% - 5.0%	2029	114,135
2009	5.00%	2029	105,315
2010	2.5% - 5.0%	2019	47,715
2010	3.95% - 5.80%	2030	72,120
Transportation System Grant Anticipation Bonds 2010 Series	5.00%	2025	111,155
	Total, gross		1,210,880
	Less: deferred amount on refunding		(1,628)
	Total, net		1,209,252
	Less: current portion of debt outstanding		(75,960)
	Long term portion of debt outstanding		$ 1,133,292

Future debt service requirements for the Authority's outstanding bonds are shown in the table below:

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2012	$ 76,320	$ 56,411	$ 132,731
2013	83,230	52,212	135,442
2014	82,160	48,135	130,295
2015	82,650	44,187	126,837
2016	80,450	40,294	120,744
2017-2021	380,170	145,797	525,967
2022-2026	308,335	63,458	371,793
2027-2031	117,565	12,550	130,115
Total	$ 1,210,880	$ 463,044	$ 1,673,924

The transportation system revenue bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the trust funds. Summary financial information at June 30, 2011 for the trust funds, which is the segment of DelDOT that supports the revenue bonds, is presented below and on the following page:

Condensed Balance Sheets
(Expressed in Thousands)

Assets:		
Current assets	$	403,223
Capital assets		1,165,201
Other assets		77,839
Total assets	$	1,646,263
Liabilities:		
Current liabilities		133,648
Noncurrent liabilities		1,169,443
Total liabilities		1,303,091
Net Assets:		
Invested in capital assets, Net of related debt		62,164
Unrestricted		110,225
Restricted		170,783
Total net assets		343,172
Total liabilities and net assets	$	1,646,263

Condensed Statements of Revenues, Expense and Changes in Net Assets
(Expressed in Thousands)

Operating revenues (pledged against bonds)	$ 372,613
Other operating revenues	52,990
Depreciation expense	(192)
Other operating expenses	(340,282)
Operating income	85,129
Nonoperating revenues (expenses):	
Investment income (pledging against bonds)	3,574
Other investment income (loss)	7,618
Interest expense	(46,470)
Transfer from State General Fund	27,233
Change in net assets	77,084
Beginning net assets	266,088
Ending net assets	$ 343,172

Condensed Statements of Cash Flows
(Expressed in Thousands)

Net cash provided by (used in):		
Operating activities	$	87,289
Noncapital financing activities		27,233
Capital and related financing activities		(41,402)
Investing activities		(902)
Net increase (decrease)		72,218
Beginning cash and cash equivalents		9,326
Ending cash and cash equivalents	$	81,544

Component Units

Debt issued by the following component units is not secured by the full faith, credit and taxing power of the State.

Delaware State Housing Authority (DSHA)

DSHA is authorized to issue bonds and notes, with the approval of the State, in order to exercise its powers. These bonds and notes are secured solely by the revenues, loans, and other pledged assets under the related Bond Indenture of DSHA.

DSHA has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of DSHA and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 1.80% to 7.75% with maturities of such bonds up through January 1, 2049.

On October 27, 2010, the Authority issued $85.0 million of Single Family Mortgage Revenue Bonds 2010 Series A pursuant to the New Issue Bond Program (NIBP) established jointly by Fannie Mae, Freddie Mac, the Federal Housing Finance Agency, and the U.S. Department of the Treasury (US Treasury) under which the US Treasury provides funding for bond issuance. The proceeds from the sale were used to provide low rate mortgages to first-time homebuyers.

Revenue bonds payable decreased by $94,915 due to accretion on capital appreciation bonds, netted by deferred amounts on refunding and bond forgiveness.

Outstanding bonds at June 30, 2011 amounted to $830.0 million. Future debt service requirements for DSHA's bonds are shown on the following table:

Delaware State Housing Authority Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2012	$ 117,448	$ 34,941	$ 152,389
2013	15,790	34,138	49,928
2014	16,080	33,385	49,465
2015	16,040	32,604	48,644
2016	16,471	31,820	48,291
2017-2021	90,795	146,177	236,972
2022-2026	112,328	120,808	233,136
2027-2031	129,311	90,921	220,232
2032-2036	160,371	55,595	215,966
2037-2041	113,406	15,499	128,905
2042-2046	21,145	5,373	26,518
2047-2049	20,907	582	21,489
Total	$ 830,092	$ 601,843	$ 1,431,935

Riverfront Development Corporation (RDC)

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury bills plus 0.30% with a minimum rate of 5.125%. The rate as of June 30, 2011 was 5.125%. The bonds mature December 1, 2017.

Estimated future annual debt service requirements are as follows:

Riverfront Development Corporation Revenue Bonds
(Expressed in Thousands)

Year June 30	Principal	Interest	Total
2012	$ 385	$ 157	$ 542
2013	420	137	557
2014	470	114	584
2015	505	89	594
2016	550	62	612
2017-2018	930	41	971
Total	$ $3,260	$ $600	$ $3,860

Delaware State University (DSU)

Revenue bonds payable at June 30, 2011 are as follows:

Delaware State University
Revenue Bonds Payable
(Expressed in Thousands)

Revenue Bonds	$	6,661
Revenue Refunding Bonds		47,861
Student Housing Foundation Bonds		49,685
Total	$	104,207

On May 6, 1999, the DSU issued revenue refunding bonds of $15.9 million (par value) through the Delaware Economic Development Authority. These bonds are due on October 1, 2017 and are secured by un-appropriated gross revenues of DSU.

The Bond Trust Indenture requires DSU to maintain a debt service reserve fund equal to the maximum annual debt service on all bonds outstanding under the Indenture. DSU meets this requirement by providing for the deposit through a surety bond in the debt service reserve fund. This bond was obtained from MBIA Insurance Corporation in the amount of $1.6 million. DSU has pledged all operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding. It was noted that the 1999 bonds were backed by MBIA who had no letter of credit expiration date.

Interest rates and remaining maturities of the 1999 bonds are as follows:

Delaware State University Revenue Refunding Bonds
(Expressed In Thousands)

Year Ending June 30	Interest Rate	Principal	Interest	Total
2012	4.00	$ 835	$ 290	$ 1,125
2013	4.00	875	254	1,129
2014	4.40	905	216	1,121
2015	4.40	945	175	1,120
2016	5.25	990	125	1,115
2017-2018	5.25	2,140	85	2,225
		6,690	$ 1,145	$ 7,835
Less Unamortized bond discount:		(29)		
Total bonds payable at June 30, 2011		$ 6,661		

On December 20, 2007, DSU issued revenue bonds of $47.6 million (par value) through the Delaware Economic Development Authority (Delaware EDA). The bonds are due on October 1, 2036 and are secured by un-appropriated gross revenues of DSU. The 2007 bonds are being issued as "Additional Bonds" under the Indenture, secured equally and ratable with all other Bonds issued and outstanding under the Indenture and any Alternative Indebtedness as provided in the Indenture and in the Loan Agreement. Pursuant to the Indenture, the Delaware EDA issued for the benefit of DSU, its $15.9 million revenue refunding bonds (Delaware State University Project) Series 1999 to advance refund all other Bonds then outstanding under the Indenture. The 2007 bonds are insured by MBIA Insurance Corporation. The bonds were secured for the construction of a new student union, a swimming pool, and a student wellness/recreation center. The Union will include a student club area, book store, copy center, mail services, game room, study area, commuter lounge, meeting rooms and administrative offices. The primary function of the pool is to provide a recreational environment. The student wellness/recreation center will serve student athletes in restricted areas and the general student population will have recreational courts, fitness equipment, intramural sports, and an academic component for wellness and health programs. It was noted that the 2007 bonds were backed by MBIA who had no letter of credit expiration date.

Delaware State University Revenue Bonds

(Expressed In Thousands)

Year Ending June 30	Interest Rate	Principal	Interest	Total
2012	4.00	$ -	$ 2,208	$ 2,208
2013	4.00	-	2,208	2,208
2014	4.00	-	2,208	2,208
2015	4.00	-	2,208	2,208
2016	4.00	-	2,208	2,208
2017-2021	4.00 - 5.00	3,995	10,761	14,756
2022-2026	4.00 - 5.00	8,025	9,233	17,258
2027-2031	4.00 - 5.00	10,135	7,041	17,176
2032-2036	4.00 - 5.00	12,700	4,217	16,917
2037-2040	4.00 - 5.00	12,725	1,018	13,743
Total, gross		47,580	$ 43,310	$ 90,890
Plus unamortized bond premium		281		
Total bonds payable at June 30, 2011		$ 47,861		

The Delaware State University Student Housing Foundation (the Foundation), a component unit of DSU, is a non-profit corporation organized for the purpose of acquiring, developing, constructing, and operating student housing facilities primarily for students and faculty of DSU. The property is located in Dover, Delaware and the Foundation's development and construction project consists of three phases, collectively known as Phase I, II, and III. The Foundation has a fiscal year-end of June 30, 2011. The Foundation has issued student housing revenue bonds, secured by deed and payable solely from the revenues of the Foundation, for which bond

proceeds were restricted to the development, construction, furnishing and equipping of the student housing facilities.

The Foundation refinanced the Series 2000A and 2002A Bonds (the Prior Bonds) with a loan payable in an aggregate amount of $18.4 million funded with proceeds from the issuance of student housing revenue bonds, Series 2004A (for Phases I and II). Pursuant to the Trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004A Bonds are restricted to refunding prior outstanding bonds, to fund a debt service reserve fund for the Series 2004A Bonds, to fund an operating reserve fund for the Series 2004A Bonds, and to pay a portion of the costs of issuance of the Series 2004A Bonds. Effective February 21, 2004, the Foundation defeased the tax-exempt Series 2000A and the tax exempt Series 2002A term bonds at face value. It was further noted that the letter of credit for the 2004A bonds were backed by ACA with no letter of credit expiration, whereas the 2004B bonds were backed by Wachovia, who provided a letter of credit extension through January 2012. The letter of credit supporting the 2004 B Bonds expires on January 20, 2012. As a result, the principal amount of $33.6 million has been classified as a current liability on the Housing Foundation's Statements of Net Assets. This does not constitute a violation of the financial covenants contained in the Reimbursement Agreement between the Housing Foundation and Wells Fargo, the letter of credit bank.

The Foundation financed development and construction of Phase III with a loan payable in an aggregate amount of $36.3 million funded with the proceeds from the issuance of variable rate demand student housing revenue bonds, Series 2004B and 2004C. Pursuant to the trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004 Bonds are restricted to financing the construction, furnishing, and equipping Phase III of the Project, to defease in advance of their maturities, the former Series 2000B and 2002B Bonds, to fund interest on the Series 2004 Bonds during construction, to fund a debt service reserve fund for the Series 2004B Bonds, and to pay a portion of the costs of issuance of the Series 2004 Bonds.

The liability of the Foundation under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee. The first monthly interest payment on the Series 2004 Bonds began on July 1, 2004. Total accrued interest on all bonds as of June 30, 2011 is $0.4 million.

Maturities of long-term debt at June 30, 2011 are as follows:

Delaware State University
Student Housing Foundation
Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal
2012	$ 1,090
2013	1,140
2014	1,185
2015	1,235
2016	1,295
2017-2021	7,405
2022-2027	9,315
2028-2032	11,745
2033-2036	13,635
2037	2,160
Subtotal	$ 50,205
Less bond discount (net of accumulated amortization)	(520)
Total	$ 49,685

In February 2010, the University entered into an interest rate swap agreement in order to hedge interest rate exposure on the underlying bonds. The swap agreement had a fair value liability of $0 at June 30, 2011. The interest rate swap agreement expired on January 22, 2011 and Wells Fargo issued a waiver through June 30, 2011 because the University was in the process of refinancing the debt.

NOTE 7 LOANS AND NOTES PAYABLE

Component Units

Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2011 are shown below:

Diamond State Port Corporation
Loans and Notes Payable
(Expressed in Thousands)

Transportation Trust Fund Loan	$ 20,253
City of Wilmington Port Debt Service Notes	7,130
Delaware River and Bay Authority	3,170
Wilmington Trust Company	207
Bank of America	222
Total	$ 30,982

Transportation Trust Fund Loan

On November 30, 2001, DSPC entered into a loan agreement with DelDOT. DSPC borrowed $27.5 million. The funds were used to repay the balances in full of the original Delaware River and Bay Authority Note and the Wilmington Trust Company Note, and, at a discount, the City of Wilmington Deferred Payment Note.

In July 2006, the Transportation Trust Fund Loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006 and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next 22 years. Additionally, the State appropriated $10.0 million to be applied as a repayment of principal and interest on July 1, 2007. Beginning March 31, 2007, principal and interest payments are March 31 and May 31 each year. In June 2009, the loan was restructured to allow for the deferral of debt service principal and interest payments due March 31, 2010 and May 31, 2010, and to restructure the principal balance effective July 1, 2009 over the next 21 years. The interest rate was 3.99% during 2011 and 2010. The loan matures March 2029.

Interest expense charged to operations in 2011 was $0.8 million.

The future maturities of principal and interest payments on the Transportation Trust Fund Loan are as follows:

Transportation Trust Fund Loan
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2012	$ 821	$ 807	$ 1,628
2013	853	774	1,627
2014	888	740	1,628
2015	923	704	1,627
2016	960	667	1,627
2017-2021	5,412	2,727	8,139
2022-2026	6,588	1,551	8,139
2027-2029	3,808	262	4,070
Total	$ 20,253	$ 8,232	$ 28,485

City of Wilmington Note

In 1995, in consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington (the City), Delaware, DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of $39.9 million and Port Debt Service Notes with an original face amount of $51.1 million. These notes are secured by a first lien on substantially all of the DSPC's assets. These notes obligate DSPC to pay the City amounts that generally represent the outstanding principal balance of certain DSPC-related City general obligation bonds. The interest rates on the City bonds range from 3.2% to 6.4%.

On October 20, 2001, the City issued $22.2 million of general obligation bonds with an average interest rate of 3.70% to advance refund $21.3 million of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. DSPC-related portions of the new bonds issued and old bonds redeemed were $7.2 million and $6.9 million, respectively, passed through to DSPC. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $0.3 million for the year ended June 30, 2002, it reduced DSPC's debt service payments by $0.3 million over eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven year life of the debt.

On October 5, 2004, the City issued $12.9 million of general obligation bonds with an average interest rate of 3.73% to advance refund $11.7 million of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of $0.2 million due January 1, 2005. DSPC-related portions of the new bonds issued and old bonds redeemed were $4.0 million and $3.6 million, respectively, passed through to DSPC. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of $0.4 million it reduces DSPC's debt service payments by $0.3 million over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2011 was $0.3 million.

On June 30, 2006, the State of Delaware paid the City, on behalf of DSPC, $5.0 million in lieu of amounts due for the DSPC-related portions of the City's 1993B and 2004B bond payments due July 1, 2006 and July 1, 2007 totaling $5.6 million, reducing the total amount owed to the City by $5.6 million. The effect on the advance payment was a reduction of principal in the amount of $5.0 million, a reduction of accrued interest due July 1, 2006 in the amount of $0.3 million, and a resulting gain of $0.4 million.

On June 26, 2008, the City of Wilmington refunded Series 1996B bonds, and those bonds were replaced by Series 2008A bonds, which DSPC has correlating notes with the City. Overall, DSPC will pay an additional $60,000 in principal over the next nine years; however, DSPC will save $0.3 million in interest during the same period. In summary, DSPC will pay $0.3 million less on the City notes due to the refunding/financing. Maturity for these bonds occurs on July 1, 2022.

On April 19, 2010, the City of Wilmington refunded Series 1993B, 2004B, and 2008A bonds, and those bonds were replaced by Series 2010A bonds, which the Corporation has correlating notes with the City. The immediate impact is a reduction in debt service of $1.06 million for 2011 and 2012. Overall, the Corporation will save $0.1 million in principal, resulting in an economic gain; however, the Corporation will pay an additional $0.9 million in interest over the next 13 years.

Total deferred loss balance as of June 30, 2011 was $0.3 million. The amortization of deferred loss is $0.1 million.

Principal and interest payments made on the note during 2011 were each $0.4 million. Interest expense on the note in 2011 was less than a million.

The future maturities of principal and interest payments on the Port Debt Service Notes are as follows:

Port Debt Service Note
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2012	$ 1,183	$ 320	$ 1,503
2013	610	291	901
2014	661	264	925
2015	701	233	934
2016	742	195	937
2017-2021	2,473	593	3,066
2022-2023	1,055	53	1,108
Subtotal	7,425	1,949	9,374
Deferred loss on refunding	(295)	-	(295)
Total	$ 7,130	$ 1,949	$ 9,079

Delaware River and Bay Authority (DRBA) Obligation

On March 1, 2005, DSPC entered into an agreement with the DRBA whereby the DSPC agreed to lease to the DRBA land and a warehouse, located at the Port, for twenty years. The rent for the entire twenty-year term of the lease was $4.0 million, to be paid in advance. Simultaneously, DSPC and the DRBA entered into an operating agreement in which DSPC agreed to make guaranteed payments to the DRBA, at the beginning of each month, starting with the date upon which substantial completion has occurred, for a period of twenty years, totaling $4.0 million plus interest, which ranges from 1.5% to 5.32%.

This transaction is accounted for as a loan from DRBA secured by revenue from warehouse operations. DSPC began making guaranteed payments on July 1, 2007.

Interest expense incurred on this obligation was less than a million during 2011.

The future maturities of principal and interest payments on the DRBA obligation are as follows:

Delaware River and Bay Authority Obligation
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2012	$ 215	$ 46	$ 261
2013	175	86	261
2014	181	81	262
2015	186	75	261
2016	192	70	262
2017-2021	881	426	1,307
2022-2026	1,086	221	1,307
2027-2027	254	7	261
Total	$ 3,170	$ 1,012	$ 4,182

Wilmington Trust Company (WTC) Loan

DSPC entered into a loan agreement with WTC on August 17, 2007 for $0.4 million to purchase two 45,000 lbs. Hyster forklifts. Monthly payments to WTC of $6,186 began on September 17, 2007. The loan is for seven years, and the interest rate is 7.40%.

Interest expense incurred on this obligation was less than a million during 2011.

The future maturities of principal and interest payments on the WTC obligation are as follows:

Wilmington Trust Company Loan
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2012	$ 61	$ 13	$ 74
2013	65	9	74
2014	70	4	74
2015	11	-	11
Total	$ 207	$ 26	$ 233

Bank of America Master (BOA) Lease

In 2008, DSPC utilized the State of Delaware's Master Lease program (as administered by BOA) to purchase the twelve forklifts for $0.3 million using two loans. Both loans are for ten years at interest rates of 2.88% and 3.23%, respectively. Payments began one month after the purchase dates.

Interest expense incurred on this obligation was less than a million during 2011.

The future maturities of principal and interest payments on the BOA obligation are as follows:

Bank of America Master Lease
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2012	$ 30	$ 6	$ 36
2013	30	5	$ 35
2014	31	4	$ 35
2015	32	4	$ 36
2016	33	3	$ 36
2017-2018	66	2	$ 68
Total	$ 222	$ 24	$ 246

Riverfront Development Corporation (RDC)

The RDC has entered into multiple mortgage agreements with various banks. These mortgages are secured by the real estate and vehicles financed. Principal balances of the mortgages total $14.0 million at June 30, 2011. Interest rates for the mortgages vary between 5.455% and 8.00% and mature between June 2011 and November 2014.

Estimated future annual debt service requirements are shown as follows:

Riverfront Development Mortgage Debt
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2012	$ 1,935	$ 494	$ 2,429
2013	513	447	960
2014	468	435	903
2015	8,868	171	9,039
2016	168	46	214
Thereafter	2,038	7	2,045
Total	$ 13,990	$ 1,600	$ 15,590

NOTE 8 LEASE COMMITMENTS

Primary Government

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating $175.9 million, of which $158.8 million relates to property leases and $17.1 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures.

Operating lease payments are recorded as expenditures of the related fund when paid. Lease payments for fiscal year 2011 were approximately $34.4 million, of which $23.9 million was for office space and $10.4 million, was for equipment. The equipment leases held by the State consists mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include $4.2 million for fleet vehicles and data processing equipment for the Office of Management and Budget and $1.6 million for data processing equipment for the Department of Education. Significant annual real estate rentals include $6.2 million for leases for Health and Social Services facilities, $2.0 million for the Department of Services for Children, Youth and Their Families, $2.7 million for office space for the Department of Correction, and $3.0 million for the Department of Labor.
Future minimum lease commitments for operating leases as of June 30, 2011 are shown in the following table:

Lease Commitments
(Expressed in Thousands)

Year Ending June 30	Operating Leases
2012	$ 29,870
2013	25,903
2014	19,974
2015	17,619
2016	17,332
2017-2021	47,311
2022-2026	13,945
2027-2031	2,998
2032-2036	687
2037-2041	258
Total	$ 175,897

Component Units

Delaware Charter Schools have entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating $20.8 million, of which $20.4 million relates to property leases and $0.4 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Lease payments for fiscal year 2011 were approximately $3.6 million, of which $3.5 million was for office space and $0.1 million, was for equipment.

Future minimum lease commitments for operating leases as of June 30, 2011 are shown in the following table:

Lease Commitments
(Expressed in Thousands)

Year Ending June 30		Operating Leases
2012	$	5,696
2013		3,913
2014		3,170
2015		2,788
2016		1,483
2017-2021		3,711
Total	$	20,761

NOTE 9 OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the government-wide financial statements and in the proprietary fund financial statements. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2011. Employees earn from 1.25 to 1.75 days of vacation leave per month depending on years of service. Employees or their estates are paid for unused vacation upon termination of employment. Employees earn 1.25 days of sick leave per month. The State's obligation for sick leave credit is a maximum of 45 workdays. $171.0 million has been accrued for the Governmental Activities and $14.4 million in the Business-type Activities for the total compensated absences liability. The current portion of the long-term obligation for compensated absences is $10.2 million in the Governmental Activities and $4.8 million in the Business-type Activities. Approximately $143.7 million (84.1%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately $10.7 million (6.3%) and $16.4 million (9.6%) will be paid with Federal Funds and Local School District Funds, respectively.

The State has recorded $87.5 million relating to the accrual of the obligation for escheated (abandoned) property of which $17.5 million was recorded as the current portion.

The State has incurred obligations relating to scholarship and physician loan repayment programs, resulting in an additional long-term obligation of $4.8 million, of which $1.0 million was recorded as the current portion.

NOTE 10 CHANGES IN LONG-TERM OBLIGATIONS

The following table provides a summary of changes in long-term obligations of the primary government for the year ended June 30, 2011:

Changes in Long-Term Obligations
Primary Government
(Expressed in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Net pension obligation (note 15)	$ 115.6	$ 12.5	$ (10.3)	$ 117.8	$ -
Other postemployment benefits	906.1	506.6	(208.6)	1,204.1	-
Compensated absences	162.4	18.8	(10.2)	171.0	10.4
Claims and judgments (notes 13 and 17)	129.9	48.5	(37.3)	141.1	33.6
Escheat payable	75.0	29.9	(17.4)	87.5	17.5
Notes payable	0.2	-	(0.1)	0.1	-
Pollution remediation obligations	23.4	-	(4.9)	18.5	5.6
Bonds payable:					
General obligation bonds	1,495.9	256.0	(140.1)	1,611.8	139.6
Bond issue premium, net of accumulated amortization	127.9	19.8	(11.1)	136.6	11.1
Physician and scholarship programs	4.2	0.9	(0.3)	4.8	1.0
Governmental activities long-term liabilities total:	$ 3,040.6	$ 893.0	$ (440.3)	$ 3,493.3	$ 218.8
Business-type activities:					
Other postemployment benefits	$ 80.7	$ 32.3	$ -	$ 113.0	$ -
Compensated absences	14.2	5.0	(4.8)	14.4	4.8
Claims and judgments (notes 13 and 17)	3.2	5.5	(2.7)	6.0	-
Pollution remediation obligations	2.8	-	(1.0)	1.8	0.6
Liabilities payable from restricted assets	6.6	3.3	-	9.9	4.1
Bonds payable:					
General obligation bonds	1.4	-	(0.6)	0.8	0.3
Revenue bonds	1,179.7	119.0	(91.9)	1,206.8	76.3
Bond issue premium, net of accumulated amortization	39.8	7.0	(9.4)	37.4	7.4
Business-type activities long-term liabilities total:	$ 1,328.4	$ 172.1	$ (110.4)	$ 1,390.1	$ 93.5

Changes in long-term obligations for the component units are summarized below:

Changes in Long-Term Obligations
Component Units
(Expressed in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Delaware State Housing Authority					
Compensated absences	$ 1.0	$ 0.5	$ (0.5)	$ 1.0	$ -
Escrow deposits	29.3	2.4	-	31.7	-
Notes payable	1.1	179.8	(111.2)	69.7	69.7
Revenue bonds	964.3	87.8	(222.0)	830.1	117.4
Other long-term obligations	1.3	0.1	(0.2)	1.2	0.2
Total long-term obligations	$ 997.0	$ 270.6	$ (333.9)	$ 933.7	$ 187.3
Diamond State Port Corporation					
Notes and loans payable	$ 32.4	$ -	$ (1.4)	$ 31.0	$ 2.3
Total long-term obligations	$ 32.4	$ -	$ (1.4)	$ 31.0	$ 2.3
Riverfront Development Corporation					
Revenue bonds	$ 3.6	$ -	$ (0.4)	$ 3.2	$ 0.4
Long-term debt	14.1	0.3	(0.3)	14.0	1.9
Total long-term obligations	$ 17.7	$ 0.3	$ (0.7)	$ 17.2	$ 2.3
Delaware State University					
Revenue bonds	$ 106.0	$ -	$ (1.8)	$ 104.2	$ 32.8
Other long-term obligations	0.9	-	(0.1)	0.8	0.1
Total long-term obligations	$ 106.9	$ -	$ (1.9)	$ 105.0	$ 32.9
Delaware Charter Schools					
Compensated absences	$ 1.0	$ 0.5	$ (0.1)	$ 1.4	$ -
Notes payable	32.9	0.3	(6.6)	26.6	0.5
Revenue bonds	19.1	8.0	(0.2)	26.9	0.8
Long-term debt	11.0	16.1	(1.6)	25.5	1.2
Total long-term obligations	$ 64.0	$ 24.9	$ (8.5)	$ 80.4	$ 2.5

NOTE 11 NO COMMITMENT DEBT (NOT INCLUDED IN FINANCIAL STATEMENTS)

The State, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond, ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying

financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2011 for these entities amounted to $1,205.1 million and $625.6 million, respectively.

NOTE 12 CAPITAL ASSETS

(a) Primary Government

Capital asset activities for the fiscal year ended June 30, 2011 were as follows:

Capital Assets
(Expressed in Thousands)

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not being depreciated				
Land	$ 427,496	$ 15,485	$ (2,852)	$ 440,129
Easements	256,653	20,630	(2,412)	274,871
Construction-in-progress	399,844	184,183	(383,007)	201,020
Total capital assets, not being depreciated	1,083,993	220,298	(388,271)	916,020
Capital assets, being depreciated				
Vehicles	73,643	5,899	(3,809)	75,733
Buildings	3,161,201	253,282	(8,734)	3,405,749
Equipment	87,114	6,045	(2,595)	90,564
Land Improvements	126,526	77,334	-	203,860
Computer Software	3,817	54,354	-	58,171
Total capital assets being depreciated	3,452,301	396,914	(15,138)	3,834,077
Less accumulated depreciation for:				
Vehicles	(58,008)	(6,131)	3,545	(60,594)
Buildings	(945,884)	(76,904)	135	(1,022,653)
Equipment	(65,694)	(4,459)	1,145	(69,008)
Land Improvements	(47,194)	(9,010)	-	(56,204)
Computer Software	(2,909)	(10,714)	-	(13,623)
Total accumulated depreciation	(1,119,689)	(107,218)	4,825	(1,222,082)
Total capital assets, being depreciated, net	2,332,612	289,696	(10,313)	2,611,995
Governmental activities capital assets, net	$ 3,416,605	$ 509,994	$ (398,584)	$ 3,528,015

Capital Assets
(Expressed in Thousands)

Business-type Activities Lottery	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated				
Computer equipment & software	$ 1,395	$ -	$ -	$ 1,395
Total capital assets being depreciated	1,395	-	-	1,395
Less accumulated depreciation	(1,393)	(1)	-	(1,394)
Total capital assets, being depreciated, net	$ 2	$ (1)	$ -	$ 1

Capital Assets
(Expressed in Thousands)

Business-type Activities DelDOT	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	$ 276,761	$ -	$ -	$ 276,761
Infrastructure	3,432,677	48,398	-	3,481,075
Total capital assets, not being depreciated	3,709,438	48,398	-	3,757,836
Capital assets, being depreciated				
Buildings & improvements	91,065	6,992	-	98,057
Furniture & equipment	237,416	13,428	(11,429)	239,415
Total capital assets being depreciated	328,481	20,420	(11,429)	337,472
Less accumulated depreciation for:				
Buildings & improvements	(25,315)	(2,713)	-	(28,028)
Furniture & equipment	(113,138)	(21,811)	11,301	(123,648)
Total accumulated depreciation	(138,453)	(24,524)	11,301	(151,676)
Total capital assets, being depreciated, net	190,028	(4,104)	(128,345)	185,796
Total capital assets	$ 3,899,466	$ 44,294	$ (128,345)	$ 3,943,633
Business-type activities capital assets, net	$ 3,899,466	$ 44,294	$ (128,345)	$ 3,943,634

Depreciation expense was charged to the following primary government functions as follows:

Depreciation Expense
(Expressed in Thousands)

Governmental activities:	
General government	$ 23,354
Health and children's services	6,958
Judicial and public safety	12,265
Natural resources and environmental control	5,328
Labor	79
Education	59,234
Total depreciation expense - governmental activities	$ 107,218
Business-type activities:	
DelDOT	$ 24,524
Lottery	1
Total depreciation expense - business-type activities	$ 24,525

(b) Component Units

Capital asset activities for the fiscal year ended June 30, 2011 were as follows:

Component Units
(Expressed in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Delaware State Housing Authority				
Capital assets, not being depreciated	$ 4,567	$ 889	$ (924)	$ 4,532
Capital assets, being depreciated	42,119	1,043	-	43,162
Accumulated depreciation	(26,479)	(1,636)		(28,115)
Total capital assets, net	$ 20,207	$ 296	$ (924)	$ 19,579
Diamond State Port Corporation				
Capital assets, not being depreciated	$ 36,385	$ 7,933	$ (18,631)	$ 25,687
Capital assets, being depreciated	183,591	18,449	-	202,040
Accumulated depreciation	(55,782)	(5,460)	-	(61,242)
Total capital assets, net	$ 164,194	$ 20,922	$ (18,631)	$ 166,485
Riverfront Development Corporation				
Capital assets, not being depreciated	$ 103,619	$ 858	$ (10,932)	$ 93,545
Capital assets, being depreciated	58,916	10,441	(519)	68,838
Accumulated depreciation	(33,893)	(5,004)	519	(38,378)
Total capital assets, net	$ 128,642	$ 6,295	$ (10,932)	$ 124,005
Delaware State University				
Capital assets, not being depreciated	$ 16,976	$ -	$ -	$ 16,976
Capital assets, being depreciated	291,432	6,203	-	297,635
Accumulated depreciation	(97,407)	(9,023)	-	(106,430)
Total capital assets, net	$ 211,001	$ (2,820)	$ -	$ 208,181
Delaware Charter Schools				
Capital assets, not being depreciated	$ 5,201	$ 1,192	$ -	$ 6,393
Capital assets, being depreciated	77,419	3,249	(8,042)	72,626
Accumulated depreciation	(12,648)	(2,256)	1,379	(13,525)
Total capital assets, net	$ 69,972	$ 2,185	$ (6,663)	$ 65,494

NOTE 13 RISK MANAGEMENT

The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional malpractice and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its general fund. The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

Claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process does not result in an exact amount. Claim liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The management of the State estimates that the amount of actual or potential claims against the State at June 30, 2011, for workers' compensation, automobile accident and health-care claim liabilities is $176.9 million. The claim liabilities relating to health-care totaling $38.4 million have been recorded as accrued liabilities in governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $138.5 million has been recorded in governmental activities as claims and judgments. The current portion of these claims totals $33.6 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2011 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2011 and 2010 were as follows:

(Expressed in Thousands)

Fiscal Year	Beginning Balance July 1	Current Year Claims and Changes in Estimates	Actual Claim Payments	Ending Balance June 30
2010	$ 152,504	$ 566,192	$ (556,106)	$ 162,590
2011	$ 162,590	$ 586,537	$ (572,198)	$ 176,929

DelDOT

The Delaware Transit Corporation (DTC) maintains coverage on auto insurance through both the retention of risk and the purchase of commercial insurance. The DTC has recorded $7.1 million of claim liabilities as Insurance Loss Reserve. Of this amount, $4.1 million has been recorded as current.

NOTE 14 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

On July 1, 2007, the Delaware OPEB Fund Trust (OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code and separate from the DPERS. The OPEB Trust is administered by the DPERS Board of Directors. Policy for and management of the OPEB benefits provided to retirees are the responsibility of the State. No stand-alone financial report is issued for the OPEB Trust.

The OPEB Trust is a single-employer defined benefit plan. The OPEB Trust provides retirement medical coverage to pensioners and their eligible dependents in the State Employees', Judiciary, New State Police, and Closed State Police pension plans. The State of Delaware has elected to assume the OPEB liability on behalf of employees who participate in the State's pension plan but are employed at outside agencies including Delaware State University, University of Delaware, Delaware State Housing Authority, Delaware Charter Schools and Delaware Solid Waste Authority. Due to this assumption, the State is a single employer defined benefit plan.

Membership of the plan consisted of the following at June 30, 2011:

Retirees and beneficiaries receiving benefits	$	19,081
Terminated plan members entitled to but not yet receiving the benefits		2,018
Active eligible plan members		36,289
Total	$	57,388

Substantially all State employees become eligible for post retirement benefits if they reach retirement age while working for the State. The costs of providing these benefits are shared between the State and the retired employee. The plan provisions are as follows:

Eligibility:

State Employees:

Early Retirement:

Age 55 with 15 years of service or any age with 25 years of service

Normal Retirement:

Age 62 with 5 years of service or age 60 with 15 years of service or any age with 30 years of service

Benefits:

During the fiscal year ended June 30, 2011, the State provided health insurance options through several providers.

Spouse and Survivor Coverage:

Both are available under any of the plan options with similar retiree contributions.

Employee Contributions:

If hired prior to July 1, 1991, no contributions are required. If hired on or after July 1, 1991 (except disability pension), contributions depend on years of service.

Retiree Contributions (hired on or after 07/01/1991):

Years of Service	Percent of Premium Paid by State
Less than 10	0%
10 - 14	50%
15 - 19	75%
20 or more	100%

Funding Policy

The State of Delaware funds the OPEB for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. Additional funding has also been provided on an ad hoc basis. By State Statute Chapter 52, Title 29 of the Delaware Code, contribution requirements of plan members and the government are established and may be amended by the State Legislature. Funds are recorded in the OPEB Trust for the payment of retiree health care claims and administrative and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for health care are recorded in the OPEB Trust. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the OPEB Trust and is responsible for the financial management of the trust.

Contributions

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percent of covered payroll, with an additional amount to prefund benefits, which is not actuarially determined. The State contributed $10.0 million in fiscal year 2011. For fiscal year 2011, the State contribution in relation to the annual required contribution (ARC) totaled $182.3 million.

Retiree contribution rates are affected by the retiree date of hire, with eligible retirees hired after June 30, 1991 paying a proportionately higher rate if their years of service total less than 20. Retiree contributions for health coverage totaled $6.2 million.

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years. Amounts "required"

but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligations. The following table shows the components of the State's annual OPEB for fiscal year 2011 and the preceding fiscal year, the amount actually contributed to the plan, and the State's net OPEB obligation (dollar amounts in millions):

	Total	Governmental Activities	Business-Type Activities *
Net OPEB obligation at June 30, 2009	$ 662.4	$ 608.5	$ 53.9
Annual required contribution	498.3	459.6	38.7
Adjustment to annual required contribution	0.9	-	0.9
Annual OPEB Cost	1,161.6	1,068.1	93.5
Employer contributions	(174.7)	(162.0)	(12.7)
Net OPEB obligation at June 30, 2010	$ 986.9	$ 906.1	$ 80.8

	Total	Governmental Activities	Business-Type Activities *
Net OPEB obligation at June 30, 2010	$ 986.9	$ 906.1	$ 80.8
Annual required contribution	553.4	506.6	46.8
Adjustment to annual required contribution	(39.7)	(36.4)	(3.3)
Annual OPEB Cost	1,500.6	1,376.3	124.3
Employer contributions	(183.5)	(172.2)	(11.3)
Net OPEB obligation at June 30, 2011	$ 1,317.1	$ 1,204.1	$ 113.0

* This column includes DTC's OPEB activity.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2011 and preceding fiscal year are as follows (dollar amounts in millions):

Ended June 30	OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
2010	480.0	36%	956.5
2011	488.1	37%	1,272.0

Funded Status and Funding Progress

As of June 30, 2011, the plan was 2.1% funded. The actuarial accrued liability for benefits was $6,769.0 million, and the actuarial value of assets was $143.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of $6,625.0 million for the primary government. The covered payroll (annual payroll of active employees covered by the plan) was $1,787.0 million, and the ratio of the UAAL to the covered payroll was 371%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and

assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This schedule will be expanded in future years to provide multi-year trend data.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the OPEB plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011, actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market rates. The actuarial assumptions included a 4.25% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the State's own investments calculated based on the funded level of the plan at the valuation date, and an initial medical inflation rate of 4.25% with an ultimate rate of 5.0%. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.25% rate of salary increase.

Delaware Transit Corporation (DTC)

In June 2010, the Delaware Transit Corporation OPEB Fund Trust (the DTC OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code. The DTC OPEB Trust is administered by DTC. Policy for and management of the OPEB benefits provided to retirees are the responsibility of DTC. No stand-alone financial report is issued for the DTC OPEB Trust.

Plan Description

DTC provides continuation of medical insurance coverage to employees that retire. Based on collective bargaining agreements, any full-time employee is eligible to participate in the plan if the employee retires after meeting the eligibility requirements, which are: 1) age 65 with 5 years of service or after working for 25 years for contract employees or 2) age 55 with 10 years of service or age 62 with five years of service for noncontract employees. Disabled employees must reach eligibility. Surviving spouses of participants are allowed access to the plan and receive the same subsidy as retirees.

DTC subsidizes the medical premium. The subsidized percentage is 90% of published rates for

retirees less than age 65 and 100% for retiree's age 65 or greater. DTC subsidizes 100% of the dental and vision coverage for noncontract employees. Contract employees are allowed to access to dental and vision coverage, but must pay the full premium.

Life insurance is provided to retirees. Retirees under age 70 receive $6,000 in coverage. Once the participant reaches age 70, the coverage drops to $5,000. Each participant must contribute $0.23 per month per $1,000 of coverage to receive the benefit.

The numbers of participants are 787 active employees and 83 retirees as of June 30, 2011, the effective date of the other post-employment benefit (OPEB) actuarial valuation report.

Funding Policy

DTC currently pays for post-employment health care benefits on a pay-as-you-go basis. Although DTC is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay the accumulated liability, these financial statements assume that the pay-as-you-go funding will continue. The cash basis costs associated with these benefits were $1,042,565 for the fiscal year ended June 30, 2011.

Annual OPEB Cost and Net Obligation

DTC's annual OPEB cost (expense) is calculated based upon the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of DTC's OPEB cost for the year, the amount actually contributed to the plan, and changes to DTC's net OPEB obligation (expressed in thousands):

Annual required contribution	$	15,727
Interest on net OPEB obligation		1,215
Adjustment to annual required contribution		(1,170)
Annual OPEB cost (expense)		15,772
Contributions made		(1,043)
Increase in net OPEB obligation		14,729
Net OPEB obligation - beginning of year		30,386
Net OPEB obligation - end of year	$	45,115

DTC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows (expressed in thousands):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	11,810	20.02%	30,386
2011	15,772	6.61%	45,115

Funded Status and Funding Progress

As of June 30, 2011, the plan was 1.3% funded. The actuarial accrued liability was $111.1 million which is equivalent to the unfunded actuarial accrued liability. The covered payroll (annual payroll of active employees covered by the plan) was $31.3 million and the ratio of the UAAL to the covered payroll was 350.3%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the projected unit credit method was used with linear proration to assumed benefit commencement. The actuarial assumptions included a 4.0% investment rate of return, 4.0% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 8.0% initially, reduced be decrements to 6.9% after 10 years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payrolls over a 30-year amortization period.

NOTE 15 PENSIONS

Primary Government

Pension Plans

The State Board of Pension Trustees (Board) administers the following plans/funds (the Plans) of the Delaware Public Employees' Retirement System (DPERS) as described below:

- State Employees' Pension Plan;
- Special Fund;
- New State Police Pension Plan;
- Judiciary Pension Plans (Closed and Revised);
- County & Municipal Police and Firefighters' Pension Plans;
- County & Municipal Other Employees' Pension Plan;
- Delaware Volunteer Firemen's Fund;
- Diamond State Port Corporation Pension Plan; and
- Closed State Police Pension Plan.

With the exception of the Diamond State Port Corporation Pension Plan, the State's General Assembly is responsible for setting benefits and contributions and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending their plan provisions.

The Plans of DPERS are considered part of the State's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary funds. All of the investment assets of the plans and funds, with the exception of the Closed State Police Pension Plan and the Delaware Volunteer Firemen's Fund, are pooled and invested in a common DPERS Master Trust (Master Trust). Each of the plans or funds share in the Master Trust based on funds contributed and earnings or losses allocated. Individual investments in the Master Trust are not specifically identified to the various plans or funds.

Additionally, the following non-DPERS retirements funds/plans, described below, have been established under the custody of the Board for investment purposes only:

- County & Municipal Police and Firefighters' COLA Fund;
- Post-Retirement Increase Fund;
- Delaware Local Government Retirement Investment Pool.

The Delaware Local Government Retirement Investment Pool (DELRIP) is presented separately as investment trust funds in the fiduciary funds statement of net assets and statement of changes in net assets. The remaining non-DPERS retirement funds/plans are included in the pension trust fund.

Non-DPERS Fund Descriptions and Contributions

County & Municipal Police and Firefighters' COLA Fund

During 1990, the State passed legislation which established a mechanism for funding post-retirement increases granted by employers who participate in the County & Municipal Police and Firefighters' Pension Plans. This mechanism allows the State to appropriate funds separate to a cost of living adjustment fund (COLA Fund) managed by the Board. The funds are generated by a 0.25% tax on the value of insurance premiums written within the State. The proceeds of the tax are transferred to the State and local governments on a per member basis. In 1994, the New State

Police Plan began receiving funding for post-retirement increases from the Post-Retirement Increase Fund. Since that time, funds calculated for the State Police membership were re-directed into the COLA Fund. In accordance with Section 708 (c), Title 18 of the Delaware Code, when a participating employer grants a post-retirement increase for a plan outside of the DPERS County & Municipal Plans, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution. Allocated funds that are unused will be reverted to the State General Fund.

Post-Retirement Increase Fund (PRI)

The State passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to members retired under the State Employees' Plan, the New State Police Plan, and the Judiciary Plans (Closed and Revised) beginning in fiscal year 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI fund managed by the Board. The actuary uses the current actuarial assumptions, methods, and population data to calculate the estimated additional liability resulting from the potential benefit increases. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this PRI fund on a monthly basis based on a five-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed. For the fiscal year ended June 30, 2011, $13.8 million was transferred to the appropriate plans in DPERS.

As of June 30, 2011 recently granted post-retirement increases have outstanding liabilities totaling 91.9 million, which will be funded by the State and transferred to the appropriate plans over the next six fiscal years as follows:

Fiscal Year	(Expressed in Thousands)	
2012	$	8,371
2013		17,369
2014		18,020
2015		18,696
2016		19,397
2017		10,062
Total	$	91,915

The Board adopts actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal year 2011 was 0.81% of covered payroll. Funding for fiscal year 2012 will be 0.50%.

Local Government Retirement Investment Pool (DELRIP)

In June 1996, the State established DELRIP in the custody of the Board to allow local governments the option to pool their pension assets with the System for investment purposes. The DELRIP is an external investment pool that allows local governments within the State to potentially maximize their rate of return and reduce administrative expenses related to the

investment of funds. Participation in the pool is voluntary. There were three participating entities in DELRIP as of June 30, 2011, which comprise the pool in its entirety: Sussex County and the Towns of Elsmere and Newport.

DELRIP is subject to the oversight of the System's Investment Committee and not subject to the regulatory oversight of the Securities and Exchange Commission (SEC). The System has not provided or obtained any legally binding guarantees during the year to support the value of shares. The fair value of the shares in the pool is determined in the same manner as the value of the Master Trust shares. Since this pool is a portion of the total System, the same accounting and investment policies apply.

Plan Membership, Benefit and Contribution Provisions

A description of the individual plans including eligibility provisions, types of benefits and contribution requirements are set forth in general terms below and on the following pages. Detailed information regarding these plans is available in the Delaware Code and in the Rules and Regulations of the Board.

State Employees' Pension Plan

Plan Description and Eligibility:

The State Employees' Pension Plan is a cost-sharing single employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

Service Benefits: Final average monthly compensation multiplied by 2.0% 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.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age.

Disability Benefits: Same as Service Benefits. Employee must have 5 years of credited service. In lieu of disability pension benefits, over 90% of the members of this plan opted into a disability insurance program offered by the State effective January 1, 2006.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension (or 75% with 3% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 75% of the

benefit the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 3% of earnings in excess of $6,000.

Burial Benefit: $7,000 per member.

Special Fund

Plan Description and Eligibility:

The Special Fund provides certain benefits granted to individuals through legislation passed by the General Assembly.

Service Benefits: Defined by special legislation.

Vesting: Defined by special legislation.

Retirement: Defined by special legislation.

Disability Benefits: Defined by special legislation.

Survivor Benefits: Same as State Employees' Plan.

Contributions: Employer contributions are actuarially determined and fully funded in advance by the General Assembly.

New State Police Pension Plan

Plan Description and Eligibility:

The New State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed on or after July 1, 1980.

Service Benefits: 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 10 years of credited service at age 62.

Retirement: Age 55 with 10 years of credited service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits: Duty – *Total Disability* - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents. *Partial Disability* - calculated the same as Service Benefits, subject to minimum 50% of final average compensation.

Non-Duty – same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 75% of compensation.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 7% of compensation.

Burial Benefit: $7,000 per member.

Judiciary Pension Plans (Closed and Revised)

Plan Description and Eligibility:

The Closed Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed before July 1, 1980.

The Revised Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed on or after July 1, 1980 or members appointed before July 1, 1980 who accept the provisions of this Plan. Assets of one plan can be used to satisfy the liabilities of the other plan.

Service Benefits:

Closed - 3% of final average compensation multiplied by years of credited service, subject to maximum and minimum limitations

Revised - 1/24th of final average monthly compensation multiplied by years of service up to 12 years, plus 1/48th of final average monthly compensation, multiplied by years of service from 13 to 24 years, subject to maximum limitations.

For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 12 years of credited service.

Retirement:

Closed - Age 65 with 12 years of credited service, or any age with 24 years of

credited service.

Revised - Age 62 with 12 years of credited service, or any age with 24 years of credited service.

Disability Benefits: Same as Service Benefits.

Survivor Benefits:

Closed - If employee is receiving a pension, the eligible survivor receives 2/3 of pension; if employee is active with 12 years of credited service, then eligible survivor receives 2/3 of pension the employee would have been eligible to receive.

Revised - If employee is receiving a pension, the eligible survivor receives 50% of pension (or 2/3 with 2% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 2/3 of the benefit the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member:

Closed - $500 per year for the first 25 years of service.

Revised - 3% of earnings that exceed $6,000 per year, plus 2% of earnings that exceed the Social Security Wage Base for the first 24 years of service.

Burial Benefit: Not applicable.

County & Municipal Police and Firefighters' Pension Plans

Plan Description and Eligibility:

County & Municipal Police and Firefighters' Pension Plans, both FICA and Non-FICA, are cost-sharing multiple-employer defined benefit plans that cover police officers and firefighters employed by a county or municipality of the State which has become part of the Plan.

Service Benefits: 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits:

Duty - *Total Disability* - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents;
Partial Disability - calculated the same as Service Benefits, subject to minimum 50% of final average compensation.

Non-Duty - Same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 7% of compensation.

Burial Benefit: Not applicable.

County and Municipal Other Employees' Pension Plan

Plan Description and Eligibility:

County and Municipal Other Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers employees of counties or municipalities which have become part of the Plan.

Service Benefits: 1/60th of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of the highest five years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of credited service, age 60 with 15 years of credited service; or after 30 years of credited service.

Disability Benefits: Same as Service Benefits. Employee must have 5 years of credited service.

Survivor Benefits: If employee is receiving a pension, then eligible survivor receives 50% of pension; if the employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.

- Member - 3% of earnings in excess of $6,000.

Burial Benefit: Not applicable.

Delaware Volunteer Firemen's Fund

Plan Description and Eligibility:

The Delaware Volunteer Firemen's Fund is a cost-sharing length of service award plan that covers all actively participating volunteers of fire departments, ladies auxiliaries, or ambulance organizations within the State.

Service Benefits: $5 multiplied by years of credited service (not to exceed 25 years) per month.

Vesting: 10 years of credited service.

Retirement: Age 60 with 10 years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - $60 per member per calendar year.

Burial Benefit: Not applicable.

Diamond State Port Corporation Pension Plan

Plan Description and Eligibility:

The Diamond State Port Corporation Pension Plan is a single-employer defined benefit plan which covers all employees of the Diamond State Port Corporation.

Service Benefits: 1.75% of final average monthly compensation multiplied by the years of credited service (not to exceed 30 years). For this plan, final average monthly compensation is the monthly average of the highest consecutive five years of compensation within the last ten years of employment.

Vesting: 5 years of credited service.

Retirement: Age 65 with 5 years of credited service, or age (not less than 55 years) plus credited service equals 90.

Disability Benefits: Same as Service Benefits. Employee must have 15 years of credited service.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active with at least 15 years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 65.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 2% of compensation.

Burial Benefit: Not applicable.

Closed State Police Pension Plan

Plan Description and Eligibility:

The Closed State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed before July 1, 1980.

Service Benefits: 50% of monthly salary.

Vested/Retirement: 20 years of credited service or age 55.

Disability Benefits: Duty - 75% of monthly salary.
Non-Duty – Same as Service Benefits.

Survivor Benefits: If employee is active or is receiving a service or service-related disability pension, the eligible survivor receives 75% of pension; if employee is receiving a non-service related disability pension; eligible survivor receives 50% of pension.

Contributions:

- Employer - Funded on a pay-as-you-go basis.
- Member - 5% of salary with 20 years or less of credited service;
  2% of salary with over 20 years credited service.

Burial Benefit: $7,000 per member.

Historical Trend Information

Historical trend information for the current year and the preceding five years designed to provide information about progress made by the individual plans in accumulating sufficient assets to pay

benefits when due is presented in the separately issued financial report of the DPERS.

The DPERS issues a publicly available financial report that includes financial statements and required supplementary information for each of the individual plans and funds identified above. The financial report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

NET PENSION OBLIGATION (NPO)

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Pension Plan for the fiscal years ended June 30, 2011, 2010, and 2009 are as follows:

Net Pension Obligation (NPO)
(Expressed in Thousands)

	Fiscal Year Ended June 30, 2011	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009
Annual Required Contribution	$ 26,638	$ 27,214	$ 26,423
Interest on Net Pension Obligation	9,246	9,012	8,706
Adjustment to Annual Required Contribution	(10,318)	(9,942)	(9,504)
Annual Pension Cost	25,566	26,284	25,625
Less Contributions Made	(23,367)	(23,367)	(21,796)
Increase in Net Pension	2,199	2,917	3,829
Net Pension Obligation, Beginning of Year	115,569	112,652	108,823
Net Pension Obligation, End of Year	$ 117,768	$ 115,569	$ 112,652

Three-Year Trend Information
(Expressed in Thousands)

	Plan Year Ended	Contribution Made	Annual Pension Cost (APC)	Percent Of APC Contributed	Net Pension Obligation
State Employees'	6/30/2011	$ 128,019	$ 128,019	100.00%	$ -
	6/30/2010	101,457	101,457	100.00%	-
	6/30/2009	96,576	96,576	100.00%	-
County & Municpal Police and Firefighters'	6/30/2011	$ 7,569	$ 7,569	100.00%	$ -
	6/30/2010	7,307	7,307	100.00%	-
	6/30/2009	12,007	12,007	100.00%	-
County & Municpal Other Employees'	6/30/2011	$ 1,186	$ 1,186	100.00%	$ -
	6/30/2010	1,276	1,276	100.00%	-
	6/30/2009	2,293	2,293	100.00%	-
Delaware Volunteer Firemen's	6/30/2011	$ 1,220	$ 1,762	69.24%	$ 3,352
	6/30/2010	1,191	1,703	69.94%	2,884
	6/30/2009	1,108	1,604	69.08%	2,428
Judiciary	6/30/2011	$ 2,557	$ 2,557	100.00%	$ -
	6/30/2010	2,473	2,473	100.00%	-
	6/30/2009	2,549	2,549	100.00%	-
New State Police	6/30/2011	$ 7,810	$ 7,810	100.00%	$ -
	6/30/2010	6,562	6,562	100.00%	-
	6/30/2009	6,791	6,791	100.00%	-
Closed State Police	6/30/2011	$ 23,367	$ 26,638	87.72%	$ 117,768
	6/30/2010	23,367	27,214	85.86%	115,569
	6/30/2009	21,775	26,423	82.41%	112,652
Diamond State Port Corporation	6/30/2011	$ 704	$ 704	100.00%	$ -
	6/30/2010	594	594	100.00%	-
	6/30/2009	694	694	100.00%	-

Delaware Transportation Authority

Generally, employees of the Expressways Operations/Toll Administration are covered under DPERS. The Delaware Transit Corporation (DTC), a subsidiary public corporation of the Delaware Transportation Authority, contributes to two single-employer defined benefit plans consisting of the Contributory Pension Plan and the Delaware Transit Corporation (DTC) Pension Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Financial data for these plans has not been included in the fiduciary statements due to immateriality.

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan as well as information concerning funding policies and annual pension costs may be found in the Required Supplementary Information on pages 125 - 137.

Annual pension cost is equal to the respective plans required and actual contributions.

Three-Year Trend Information
(Expressed in Dollars)

	Plan Year Ended	Contribution Made	Annual Pension Cost	Percent Of APC Contributed	Net Pension Asset
DTC Pension Plan	6/30/2011	$ 1,111,468	$ 1,111,548	99.99%	$ 109,368
	6/30/2010	$ 1,033,487	$ 1,033,998	99.95%	$ 109,288
	6/30/2009	$ 800,128	$ 940,741	85.05%	$ 108,777
Contributory Pension Plan	12/31/2010	$ 1,081,793	$ 535,681	201.95%	$ 2,713,706
	12/31/2009	$ 1,063,098	$ 674,249	157.67%	$ 2,167,594
	12/31/2008	$ 996,405	$ 632,751	157.47%	$ 1,778,745

Deferred Compensation Plan

The State offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 16 GOVERNMENTAL FUND BALANCES

The State's governmental fund balances are classified according to the relative constraints that control how amounts can be spent. Classifications include:

- **Nonspendable**. Balances include items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed or assigned) and activity that is legally or contractually required to remain intact.
- **Restricted.** Balances have constraints placed upon the use of the resources either by constitutional provisions, enabling legislation, external resource providers such as creditors, grantors, or imposed by law or regulations of other governments.
- **Committed**. Balances 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. This 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.
- **Assigned.** Balances include amounts that are constrained by the State's intent to be used for a specific purpose, but are neither restricted nor committed. For the General Fund, amounts constrained for the intent to be used for specific purpose by a governing board or a body or official that has been delegate authority to assign amounts it varies by organization within the state. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not restricted or committed.
- **Unassigned.** Balance is the residual amount of the General Fund not included in the four categories described above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

A summary of governmental fund balances at June 30, 2011, is as follows (expressed in thousands):

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
Nonspendable					
Inventories	$ 9,807	$ -	$ -	$ -	$ 9,807
Total Nonspendable	9,807	-	-	-	9,807
Restricted:					
Health and children's services	$ 4,444	$ 16,754	$ -	$ -	$ 21,198
Judicial and public safety	4,772	-	-	-	4,772
Natural resources and environmental control	11,372	-	-	-	11,372
Agriculture	1,071	-	-	-	1,071
Labor	1,701	-	-	-	1,701
Education	3,812	-	338,271	-	342,083
Economic Development	555	-	-	-	555
Budgetary Reserve	186,430	-	-	-	186,430
Other	3,147	-	-	-	3,147
Total Restricted	$ 217,304	$ 16,754	$ 338,271	$ -	$ 572,329
Committed					-
Health and children's services	20,718	-	-	-	20,718
Judicial and public safety	5,278	-	-	-	5,278
Natural resources and environmental control	48,369	-	-	-	48,369
Agriculture	5,319	-	-	-	5,319
Labor	7,929	-	-	-	7,929
Education	5,411	-	-	40,068	45,479
Economic Development	2,143	-	-	-	2,143
Other	30,727	-	-	-	30,727
Total Committed	$ 125,894	$ -	$ -	$ 40,068	$ 165,962
Assigned					
Health and children's services	800	-	-	-	800
Judicial and Public Safety	6,524	-	-	-	6,524
Natural resources and environmental control	13,408	-	-	-	13,408
Agriculture	14,665	-	-	-	14,665
Labor	2,581	-	-	-	2,581
Education	51,713	-	-	-	51,713
Economic Development	58,755	-	-	-	58,755
Other	53,362	-	-	-	53,362
Total assigned	$ 201,808	$ -	$ -	$ -	$ 201,808
Unassigned	$ 842,459	$ -	$ -	$ -	$ 842,459
Total fund balance	$ 1,397,272	$ 16,754	$ 338,271	$ 40,068	$ 1,792,365

Fund Balance Restricted by Enabling Legislation

The restricted Fund Balance for the Local School Districts Fund are funds that are used to account for activities relating to Delaware's 19 local school districts, which are funded by locally

raised real estate taxes and other revenues. The total amount in the fund was $338.3 million at June 30, 2011.

The State Constitution provides that certain excess unencumbered budgetary general funds at the end of a fiscal year must be placed in a reserve account (the Budgetary Reserve Account).This account, designed to mitigate the operational impact of any future unanticipated deficits, and may not exceed 5% of the estimated general fund revenue for the ensuing fiscal year. Total funding of the budgetary reserve account was $186.4 million at June 30, 2011. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation. Per the Delaware Constitution, the General Assembly, by three-fifths vote of the members elected to each House, may appropriate from the budgetary reserve account. Should the State attempt to use this reserve for other purposes, such could be challenged by citizens.

NOTE 17 Affiliated Organizations

State Lottery

Multi-State Lottery Association

The State Lottery is a member of the Multi-State Lottery Association (MUSL), which operates online games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the member's share of the estimated grand prize liability. Each MUSL member pays lesser prizes directly to the winners. The MUSL operates the Powerball games, as well as the Powerplay feature associated with Powerball. The MUSL also operates the Hot Lotto game, in which the Lottery began participating during fiscal year 2008. Participating lotteries are required to maintain deposits with MUSL for contingency reserves to protect MUSL from unforeseen prize liabilities. The money in this reserve fund is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board.

The amount the Lottery had on deposit with MUSL as of June 30, 2011, was $2.4 million. This amount is also reported by the Lottery as a liability on its balance sheet because it represents the amount to be paid to the State upon separation from the MUSL if the MUSL is not required to use a portion of the Lottery's reserves held by the MUSL.

Complete separate financial statements for the MUSL may be obtained at the Multi-State Lottery Association, Suite 210, and 1701 48th Street, West Des Moines, IA 50266-6723.

NOTE 18 COMMITMENTS

Primary Government

The State has entered into various contractual commitments that control for services and for construction of various highway, capital and lottery projects. Commitment of the proprietary fund includes $262.8 million for DelDOT.

Encumbrances which represent commitment related to unperformed contracts for goods or

services are included in restricted, committed, or assigned fund balance as appropriate. Encumbrances lapse at the end of the applicable appropriation, unless re-appropriated by the Legislature. Encumbrances outstanding against continuing appropriations at the end of fiscal year 2011 are as follows: general fund $58.2 million, federal funds are $25.3 million, local school funds are $6.8 million and capital project funds are $23.0 million.

Component Units

Diamond State Port Corporation (DSPC)

DSPC has various contracts for construction and renovation of significant facilities in accordance with the Capital Budget approved by its Board of Directors. As of June 30, 2011, DSPC had $16.8 million in cash and investments committed to capital projects.

Riverfront Development Corporation (RDC)

The RDC has an outstanding letter of credit in the amount of approximately $3.7 million which expires on November 2012. RDC is required to maintain a letter of credit sufficient to redeem the aggregate outstanding principal amount of the bonds payable plus 39 days of interest. The letter of credit is secured by certain real property owned by RDC and assignment of the lease between RDC and National Railroad Passenger Corporation.

NOTE 19 CONTINGENCIES

Primary Government

Various parties have made claims against the State. For those cases in which it is reasonably possible that a loss will be incurred and in which the amount of the potential judgment can be reasonably estimated, the State estimates the liability to be $5.3 million. The State recognized $2.6 million in governmental activities as claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2011. In the opinion of the Attorney General of the State, however, the remaining cases are either subject to a valid defense or are not expected to result in an impairment of the State's financial position. Management believes the settlement in aggregate of claims outstanding will not result in amounts material to the financial statements of the State.

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. The State does not believe that the liabilities that may result from such audits for periods through June 30, 2011 would have a material effect on its financial position or the results of operations.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation*

Obligations, provides guidance for state and local governments in estimating and reporting the potential costs of pollution remediation. While GASB Statement No. 49 does not require the State to search for pollution, it does require the State to reasonable estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the State is compelled to take action;
- The State is in violation of a pollution related permit or license;
- The State is named or has evidence that it will be named as responsible party by a regulator;
- The State is named or has evidence that it will be named in a lawsuit to enforce a cleanup; or
- The State commences or legally obligates itself to conduct remediation activities.

Site investigation, planning and design, cleanup and site monitoring are typical remediation activities underway across the State. Several State organizations have dedicated programs, rules and regulations that routinely deal with remediation related issues; others become aware of pollution conditions in the fulfillment of their missions. The State has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities. The standard requires the State to calculate pollution remediation liabilities using the expected cash flow technique. Where the State cannot reasonably estimate a pollution remediation obligation, it does not report a liability; however, the State has not identified any of these situations.

The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

At June 30, 2011, the State had a total pollution remediation liability of $20.3 million, with an estimated potential recovery of $4.5 million from the U.S. Environmental Protection Agency.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than $150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately $1.1 million at June 30, 2011) in the event that the annuity issuers default on their obligations.

Component Units

DSHA has amounts received or receivable from grant agencies that are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at

this time, although DSHA expects such amounts, if any, to be immaterial.

NOTE 20 SUBSEQUENT EVENTS

Primary Government

On November 15, 2011, the State issued $275.4 million of its general obligation bonds maturing between July 1, 2012 and July 1, 2031. Of the $275.4 million issued as Series 2011, $50.4 million was issued to refund higher priced bonds resulting in a net present value savings of $2.8 million, or 5.2% of the principal refunded. The Series 2011 bonds were sold to retail and institutional investors and bore coupons between 2.0% and 5.0% and yield between 0.21% and 3.46%.

The proceeds of the new money bonds, $225.0 million, will be used to provide funds to capital projects to various State and local school facilities.

On August 1, 2011, pursuant to the Delaware Energy Act, 29 Del. C. §8059, the Sustainable Energy Utility, Inc. (the "SEU"), a Delaware nonprofit corporation created by and for the benefit of the State, issued $67.4 million of its SEU Energy Efficiency Revenue Bonds, Series 2011. The bonds mature between September 15, 2013 and September 15, 2031 with coupons between 2.0% and 5.0% and yields between 0.65% and 4.55%. The proceeds of the bonds will be used to pay for the design and implementation of certain energy conservation measures in several State agencies and departments as well as Delaware's higher education facilities. The bonds are limited obligations of the SEU payable primarily from payments to be made by, or on behalf of, State agencies.

Component Units

Riverfront Development Corporation (RDC)

In August 2011, the RDC opened a line of credit with PNC Bank in the amount of $500,000. The line of credit is secured by substantially all business assets, will bear interest at LIBOR plus 2.5%, and matures in July 2012.

Also in August 2011, RDC opened a new loan with PNC Bank in the amount of $1.2 million. The loan is secured by real estate, bears interest at LIBOR plus 2.5%, requires monthly payments of interest only through August 2012, then payments of $6,667 beginning September 2012, and matures in August 2019. Proceeds were used to pay down the note payable of $3.9 million described in Note 9.

Delaware State Housing Authority (DSHA)

On July 18, 2011, the Authority issued $99.6 million of Single Family Mortgage Revenue Bonds 2011 Series A pursuant to the New Issue Bond Program (NIBP) established jointly by Fannie Mae, Freddie Mac, the Federal Housing Finance Agency, and the U.S. Department of Treasury provides funding for bond issuance. Some proceeds from the sale were used to purchase the

mortgage backed securities held in the DSHA Mortgage Backed Security Purchase Program and the DSHA Mortgage Backed Security Purchase program then repaid the FHLB Pittsburgh loan agreement, which matured on July 18, 2011. The remaining proceeds from the bond issue were used to provide low rate mortgages to first-time homebuyers.

Delaware State University (DSU)

The University entered into a Guaranteed Energy Savings Agreement with Johnson Controls, Inc. in the amount of $11.3 million. The energy efficiency revenue bonds were issued to the State of Delaware Sustainable Energy Utility, Inc. on or about August 1, 2011. Upon completion of the energy upgrades to various buildings and systems throughout the University, Johnson Controls, Inc guarantees that the savings achieved is sufficient to cover the financing cost associated with the bond. In the event that the savings are not realized Johnson Controls, Inc will be responsible for the amount that is deficient. The first payment to the Sustainable Energy Utility, Inc is due on March 15, 2012 and will continue thereafter semiannually on each September 15 and March 15 through 2033.

The University is in the process of refinancing the Housing Foundation's 2004 B Bonds. The re-financing is expected to be complete by January 31, 2012 and will include $33.6 million for the 2004 B debt, $2.8 million for the callable portion of the 1999 debt, $5 million for the Applied Optics Building project and $2.2 million for issuance costs and debt service funds. The total bond issuance is projected to be $43.6 million.

Due to this expected refinancing, the University did not request Wells Fargo to renew its letter of credit supporting the 2004 B Bonds. The letter of credit expires on January 20, 2012 and the 2004 B Bonds will be subject to a mandatory tender on January 12, 2012. On that date, it is expected that Wells Fargo will use the proceeds of a draw on the letter of credit to purchase and hold the 2004 B Bonds pending their refinancing with a new issue of bonds. Upon completion of the refinancing, the bank bonds held by Wells Fargo will be redeemed with proceeds of the new bond issue.

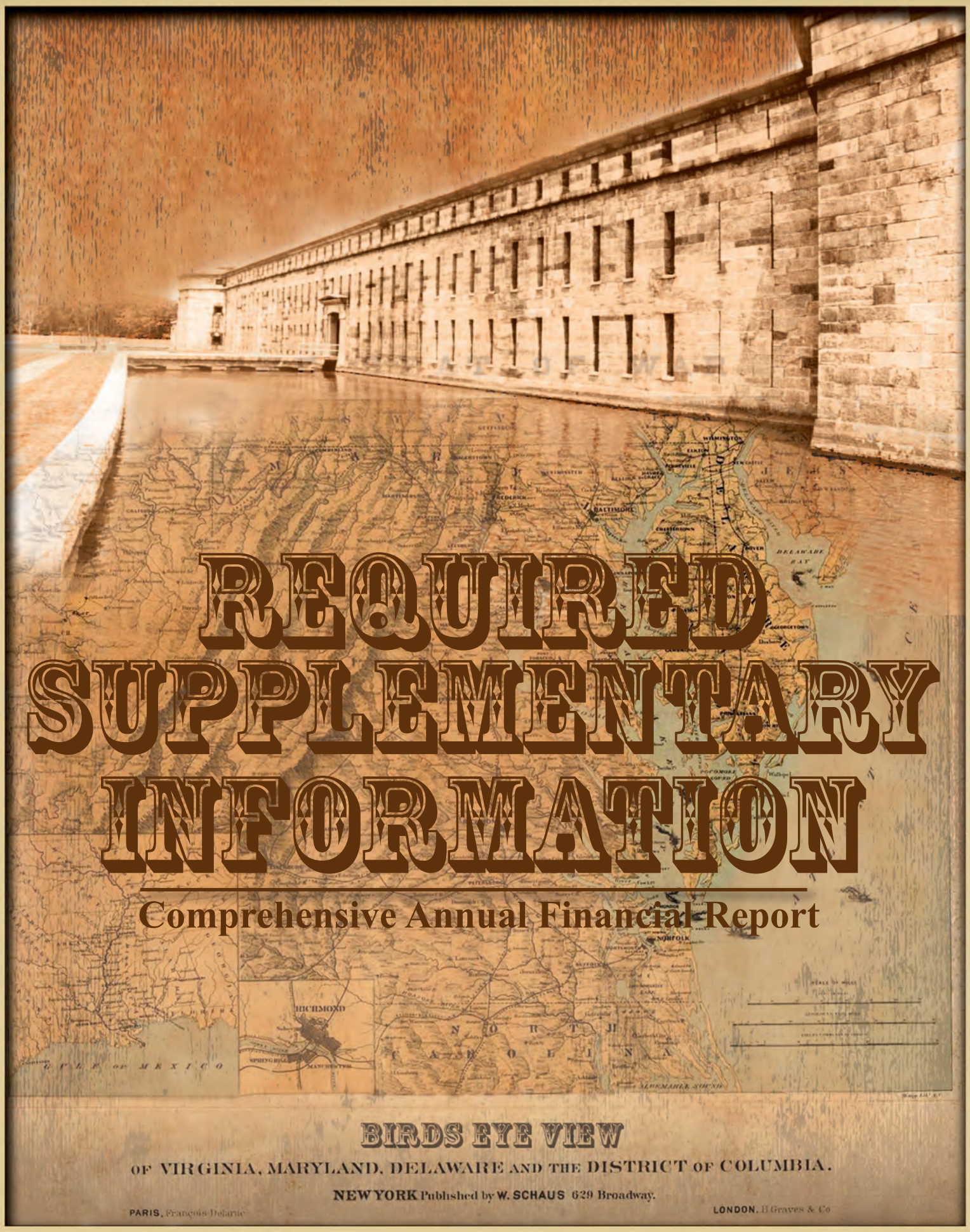
NOTE 21 PRIOR PERIOD ADJUSTMENTS

Component Units

Delaware State Housing Authority (DSHA) has restated their prior year net assets due to an error in their accounting of funds disbursed through its HOME Tax Credit Assistance Program as they were incorrectly accounted for as grants and expensed instead of as loans. As a result beginning net assets of DHSA were increased by $4.5 million, from $322.8 million to $327.3 million.

REQUIRED SUPPLEMENTARY INFORMATION

Comprehensive Annual Financial Report



NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

BUDGETARY BASIS VS. GAAP

While GAAP requires the use of the fund structure described in Note 1(b), the State's budget system uses only a general fund and a special fund, each of which uses the basis of accounting described below. Additionally, the activities of certain component units of the State, which are not substantially supported by tax revenues, are not included in the budget data. Reconciliation of the accrual adjustments necessary to convert budgetary basis information to GAAP basis is presented in Required Supplementary Information.

The State Constitution requires the Governor to prepare and submit to the General Assembly a State budget for the ensuing year. The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the general fund or the special fund. References to these two funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The General Assembly enacts the budget through the passage of specific line-item appropriations by department, the legal level of budgetary control, the sum of which must not exceed 98 percent of the estimated revenues and available unencumbered cash balance from the prior year pursuant to the State Constitution. The Governor has the power to approve or veto each appropriation passed by the General Assembly. The General Assembly may also enact supplement appropriation or special appropriation bills after it completes action on the State's budget.

The budgetary general fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary special funds. Certain Special Funds are subject to appropriation, referred to herein as budgetary or appropriated Special Funds. Unexpended appropriations at year-end are available for subsequent expenditure to the extent that they have been encumbered at that date or legislatively extended for another year. Budget data represents original appropriations modified by interdepartmental transfers, supplemental, continuing, and carried-over encumbered appropriations. Subsequent modifications to the budget require the approval of the Controller General and the Budget Director. Additional detailed information regarding compliance with the legal level on control can be obtained by contacting the Office of Management and Budget at (302) 739-4206. Summary information regarding individual department budgets and the compliance with the legal level of budgetary control is presented on the following pages.

Encumbrance accounting is employed in budgetary funds. Encumbrances (e.g., purchase orders) outstanding at year-end do not constitute expenditures or liabilities and are reported as reservations of fund balances because the commitments will be honored during the subsequent year.

The budget schedules in Required Supplemental Information a) reflect the adjustments made to increase the special fund's excess of revenues over expenditures for certain revenue sources not previously recognized; b) eliminates the net activity of certain operations that are accounted for within both the special fund and also in the separate accounts of certain component units or

agency funds that are not principally accounted for within the special fund; and c) presents the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

Statutory/Budgetary Presentation

The Budgetary Comparison Schedule – Budget to Actual (Non-GAAP Budgetary Basis) presented on the following pages provides a comparison of the original and final legally adopted budget with actual data on a budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriations bill as of June 30, 2011, and do not include encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year. GAAP requires that the final legal budget be reflected in the "final budget" column; therefore, updated revenue estimates available for appropriations as of the last Delaware Economic and Financial Advisory Council (DEFAC) meeting in June 2011, as well as the amounts shown in the original budget, are reported. The final legal budget also reflects encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year.

The tables on the following page represent the Budgetary Statements of Revenues, Expenditures and Changes in Fund Balance – General and Special Funds. Also included is a schedule showing the budgetary fund balance designations for the General Fund. Of the $799.2 million budgetary general fund balance at June 30, 2011, $186.4 million is reserved for the budgetary reserve account and $268.3 million is designated as continuing and encumbered appropriations. The $344.5 million of undesignated fund balance, for the most part, is not available for new spending as these funds have been committed based on State statues which are subject to review and change by the Legislature.

Budgetary Comparison Schedule-General and Special Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2011
(Expressed in Millions)

	General Fund				Special Fund			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
Revenues								
Personal income taxes	$ 969.9	$ 999.2	995.4	$ (3.8)	$ -	$ -	$ -	$ -
Business taxes	1,403.6	1,047.4	1,595.2	547.8	-	-	-	-
Other taxes	196.3	187.7	187.4	(0.3)	-	-	-	-
License, permits, fines and fees	321.4	326.0	326.3	0.3	-	-	-	-
Rentals and sales	0.0	0.0	0.0	0.0	-	-	-	-
Interest earnings	13.1	8.5	8.9	0.4	-	-	-	-
Lottery sales	256.3	289.0	287.0	(2)	-	-	-	-
Grants	0.0	0.0	0.0	0.0	-	-	-	-
Other non-tax revenue	79.4	79.8	131.2	51.4	975.6	888.6	874.6	(14.0)
Total revenue	3,240.0	2,937.6	3,531.4	593.8	975.6	888.6	874.6	(14.0)
Expenditures								
Legislative	13.8	17.4	12.0	5.4	0.1	0.0	0.0	0.0
Judicial	87.1	93.2	90.4	2.8	9.1	8.1	7.2	0.9
Executive	207.8	274.6	124.2	150.4	118.0	68.7	64.6	4.1
Department of Technology & Information	34.0	39.4	36.3	3.1	29.6	21.3	17.3	4.0
Other Elective Offices	179.3	197.0	190.3	6.7	63.4	56.3	55.2	1.1
Legal	42.4	44.1	44.1	0.0	9.6	9.0	8.9	0.1
Department of State	26.6	28.8	26.7	2.1	38.5	44.3	39.9	4.4
Department of Finance	13.6	23.3	21.1	2.2	86.8	84.1	79.7	4.4
Department of Health & Social Services	891.6	940.9	834.9	106.0	112.4	98.9	91.2	7.7
Department of Services to Child, Youth and Their Families	125.5	129.6	120.7	8.9	20.3	21.9	20.2	1.7
Department of Corrections	243.5	260.5	245.4	15.1	4.2	3.1	2.7	0.4
Department of Natural Resources and Environmental Control	33.2	47.8	42.6	5.2	90.5	59.6	51.8	7.8
Department of Safety & Homeland Security	123.9	129.3	126.6	2.7	13.8	9.7	9.4	0.3
Department of Transportation	0.0	14.0	14.0	0.0	344.9	374.9	247.8	127.1
Department of Labor	6.6	6.6	6.5	0.1	18.5	15.7	15.7	0.0
Department of Agriculture	7.1	10.4	8.6	1.8	8.2	5.6	5.5	0.1
Department of Elections	3.7	6.8	6.1	0.7	0.0	0.0	0.0	0.0
Fire Prevention Commission	4.6	4.7	4.7	0.0	2.5	1.9	1.9	0.0
Delaware National Guard	4.2	4.6	3.8	0.8	0.0	0.0	0.0	0.0
Higher Education	212.5	221.3	220.0	1.3	0.0	1.0	1.0	0.0
Department of Education	1,044.2	1,121.7	1,091.7	30.0	5.2	4.5	4.1	0.4
Total expenditures	$ 3,305.2	$ 3,616.0	$ 3,270.7	$ 345.3	$ 975.6	$ 888.6	$ 724.1	$ 164.5
Excess (deficiency) of revenue over expenditures	(65.2)	(678.4)	260.7	939.1	-	-	150.5	150.5
Budgetary fund balance, beginning of year	538.5	538.5	538.5	0.0	377.2	377.2	377.2	0.0
Budgetary fund balance, end of year	$ 473.3	$ (139.9)	$ 799.2	$ 939.1	$ 377.2	$ 377.2	$ 527.7	$ 150.5

Budgetary fund balance	
Designated:	
Budget reserve account	$ 186.4
Continuing and encumbered appropriations	268.3
Undesignated	344.5
Total	$ 799.2

See Accompanying Notes to Financial Statements

Statutory/Budgetary Reconciliations

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation is required of resulting basis, perspective and entity differences in the revenues in excess of (less than) expenditures and other financing sources (uses) between budgetary and GAAP presentations.

The following two schedules represent the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

Budget vs. GAAP Revenue Reconciliation
For the Fiscal Year Ended June 30, 2011
(Expressed in Millions)

Total budget basis general and special fund revenue for fiscal year 2011		$4,406.0
Adjustments:		
The financial reporting revenues does not include revenues that are part of the general budgetary revenues	(508.9)	
Non-budgetary general revenues reclassified to general fund revenue	434.7	
To adjust revenues, other financing sources and related receivables and deferred revenue	(596.5)	
Total general fund revenues for fiscal year 2011		$3,735.3
Federal fund revenue	1,628.0	
Local school fund revenue	484.1	
Capital projects fund revenue	-	
		2,112.1
Total GAAP basis governmental funds revenue for fiscal year 2011		$5,847.4

Budget vs. GAAP Expenditures Reconciliation
For the Fiscal Year Ended June 30, 2011
(Expressed in Millions)

Total budget basis general and special fund expenditures for fiscal year 2011		$3,994.8
Adjustments:		
The financial reporting expenditures do not include revenues that are part of the general budgetary expenditures	(363.4)	
Non-budgetary general expenditures reclassified to general fund expenditures	694.6	
To adjust expenditures, other financing uses and related accounts payable and accrued liabilities	(362.6)	
Total general fund revenues for fiscal year 2011		$3,963.4
Federal fund expenditures	1,537.7	
Local school fund expenditures	423.1	
Capital projects fund expenditures	196.0	
		2,156.8
Total GAAP basis governmental funds revenue for fiscal year 2011		$6,120.2

Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 4,360 centerline miles and approximately 1,562 bridges that the State is responsible to maintain.

The condition of the State's road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0.0 for poor pavement to 5.0 for pavement in good condition.

The condition of bridges is measured using the "Bridge Condition Rating" (BCR) which is based on the Federal Highway Administration (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 9, 0 to 4 for substandard bridges and 9 for bridges in good condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of between 6 and 9. A rating of 5 is considered fair. The information is taken from past "Bridge Inventory Status" reports.

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges. Due to the timing of these condition assessments, information for the fiscal year ended June 30, 2011 is not available.

State of Delaware
Department of Transportation
Supplementary Information for Governments That Use the
Modified Approach for Infrastructure Assets

Structural Rating Numbers and Percentages for Bridges

		Calendar Year Ended December 31					
		2010		2009		2008	
	BCR Condition Rating	Number	Percent	Number	Percent	Number	Percent
Good	6-9	1,137	72.8	1,144	73.5	1,118	74.1
Fair	5	313	20.0	295	19	291	19.3
Poor	0-4	112	7.2	117	7.5	100	6.6
Totals		1,562	100	1,556	100	1,509	100

Deck Rating Numbers and Percentages for Bridges

		Calendar Year Ended December 31					
		2010		2009		2008	
	OPC Condition Rating	Square Feet	Percent	Square Feet	Percent	Square Feet	Percent
Good	6-9	6,685,282	91.1	6,800,531	92.8	6,799,842	93.0
Fair	5	651,712	8.8	510,306	6.9	485,635	6.6
Poor	0-4	4,994	0.1	19,558	0.3	26,253	0.4
Totals		7,341,988	100	7,330,395	100	7,311,730	100

Center-Line Mile Numbers and Percentages for Road Pavement

		Calendar Year Ended December 31					
		2009		2008		2007	
	OPC Condition Rating	Center-Line Mile	Percent	Center-Line Mile	Percent	Center-Line Mile	Percent
Good	3.0-5.0	3,423	78.5	3,007	67.6	3,071	68.9
Fair	2.5-3.0	575	13.2	1000	22.5	935	21
Poor	Below 2.5	362	8.3	440	9.9	448	10.1
Totals		4,360	100	4,447	100	4,454	100

Comparison of Estimated-to-Actual Maintenance/Preservation*
(Expressed In Thousands)

	Fiscal Year ended June 30				
	2011	2010	2009	2008	2007
Estimated	$134,335	$102,183	$208,764	$197,301	$129,138
Actual	$252,646	$336,214	$308,732	$271,333	$256,571

* The estimated expenditures represent annual Bond Bill authorization. The actual expenditures represent the current year spending, which includes cumulative authorization.

Required Supplementary Information – Pension

The following tables present additional information related to funding status and progress, annual pension costs and actuarial methods and assumptions. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

Delaware Public Employees' Retirement System (DPERS)

The amount shown below as actuarial accrued liability is a measure of the difference between the actuarial present value of future plan benefits, and the actuarial present value of future normal cost.

Schedule of Funding Status and Progress
(Expressed in Thousands)

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL AAL AAL (UAAL) (Excess of Assets over Liabilities) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL/ (Excess) as % of Covered Payroll (3) / (5)
State Employees *	6/30/11	$ 7,091,821	$ 7,547,951	$ 456,130	94.0%	$ 1,783,603	25.6%
	6/30/10	$ 6,808,957	$ 7,096,326	$ 287,369	96.0%	$ 1,740,622	16.5%
	6/30/09	6,744,050	6,827,006	82,956	98.8%	1,753,129	4.7%
Special	6/30/11	$ 406	$ 287	$ (119)	141.5%	N/A	N/A
	6/30/10	$ 457	$ 333	$ (124)	137.2%	N/A	N/A
	6/30/09	516	399	(117)	129.3%	N/A	N/A
Closed State Police +	6/30/11	$ 2,414	$ 286,010	$ 283,596	0.8%	$ 114	248,768.4%
	6/30/10	$ 1,440	$ 298,493	$ 297,053	0.5%	$ 339	87,626.3%
	6/30/09	727	306,904	306,177	0.2%	619	49,463.2%
New State Police *	6/30/11	$ 270,625	$ 286,890	$ 16,265	94.3%	$ 50,556	32.2%
	6/30/10	$ 245,303	$ 260,258	$ 14,955	94.3%	$ 49,896	30.0%
	6/30/09	229,457	241,251	11,794	95.1%	50,425	23.4%
Judiciary*	6/30/11	$ 55,784	$ 63,090	$ 7,306	88.4%	$ 9,624	75.9%
	6/30/10	$ 51,550	$ 60,104	$ 8,554	85.8%	$ 9,798	87.3%
	6/30/09	49,036	57,799	8,763	84.8%	9,814	89.3%
Diamond State Port Corporation	6/30/11	$ 17,198	$ 20,632	$ 3,434	83.4%	$ 11,150	30.8%
	6/30/10	$ 15,418	$ 18,354	$ 2,936	84.0%	$ 11,224	26.2%
	6/30/09	14,353	16,284	1,931	88.1%	11,071	17.4%
County & Municipal Police Firefighters	6/30/11	$ 157,394	$ 160,150	$ 2,756	98.3%	$ 59,418	4.6%
	6/30/10	$ 135,684	$ 141,430	$ 5,746	95.9%	$ 56,917	10.1%
	6/30/09	119,712	122,573	2,861	97.7%	55,478	5.2%
County and Municipal Other Employees	6/30/11	$ 20,664	$ 22,859	$ 2,195	90.4%	$ 20,580	10.7%
	6/30/10	$ 17,596	$ 19,827	$ 2,231	88.7%	$ 20,591	10.8%
	6/30/09	15,074	16,787	1,713	89.8%	19,046	9.0%
						Active Member ++	Cost per Active Member ++
Volunteer Firemen	6/30/11	$ 14,379	$ 29,515	$ 15,136	48.7%	4,933	3,068
	6/30/10	$ 13,663	$ 27,382	$ 13,719	49.9%	4,898	2,801
	6/30/09	13,241	26,562	13,321	49.8%	5,074	2,625

* Excludes liability and amortization payments due to cost-of-living adjustments. This liability is funded from the Post-Retirement Increase Fund and is funded over five years.

\+ The Closed State Police Pension Plan is a pay-as-you-go pension plan.

++ Not expressed in thousands.

N/A – Not Applicable

Annual Pension Cost, Actuarial Methods and Assumptions - DPERS

The schedules below provide information concerning annual pension costs. Annual pension cost for each plan, except the Closed State Police Plan, is equal to the respective plan's required and actual contributions for the fiscal year ended June 30, 2011.

Schedule of Annual Pension Cost, Actuarial Methods and Assumptions
(Expressed in Thousands)

Plan	State Employees'	Special	Closed State Police	New State Police	Judiciary
Annual Pension Cost	$ 128,019	N/A	$ 26,638	$ 7,810	$ 2,557
Actuarial Valuation Date	6/30/11	6/30/11	6/30/11	6/30/11	6/30/11
Actuarial Cost Method	Entry Age Normal	N/A	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss	N/A	Level Dollar Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	20 years (1)	N/A	26 years	20 years (1)	12.07 years (1)
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:					
Investment rate of return	7.5%	7.5%	7.5%	7.5%	7.5%
Projected Salary Increases [1]	3.8% to 11.8%	N/A	4.2% to 4.8%	4.3% to 11.8%	3.8% to 12.5%
Cost-of-living adjustments	Ad hoc	Ad hoc	Based on CPI	Ad hoc	Ad hoc

Plan	Diamond State Port Corporation	County & Municipal Police and Firefighters'	County & Municipal Other Employees	Delaware Volunteer Firemen's
Annual Pension Cost	$ 704	$ 7,569	$ 1,186	$ 1,762
Actuarial Valuation Date	6/30/11	6/30/11	6/30/11	6/30/11
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Open	Level Percent Open	Level Dollar Closed
Remaining Amortization Period	15 years	10 years	10 years	17 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:				
Investment rate of return	7.5%	7.5%	7.5%	7.5%
Projected Salary Increases [1]	4.3%	4.3% to 11.8%	3.8% to 9.6%	N/A
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Ad Hoc	Ad Hoc

[1] Excludes liability and amortization payments due to cost-of living adjustments. This liability is funded from the Post-Retirement Increase Fund. Each Post-Retirement Increase is funded over 5 years.
N/A: Not applicable

DelDOT - Delaware Transit Corporation – Pension Data

The most recent information available for Delaware Transit Corporation's annual pension cost and related information for each plan is as follows (note – the current year information is not available for each plan):

Schedule of Funding Status and Progress
(Expressed in Dollars)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (Excess of Assets over AAL) (a-b)	(d) Funded Ratio (a / b)	(e) Annual Covered Payroll	(f) UAAL (Excess) as % of Covered Payroll (c / e)
DTC Pension Plan	07/01/2010	$ 12,329,167	$ 12,841,594	$ (512,427)	96.01%	$ 11,464,713	(4.47%)
	07/01/2009	$ 10,282,778	$ 10,797,306	$ (514,528)	95.23%	$ 11,624,462	(4.43%)
	07/01/2008	10,886,557	11,290,478	(403,921)	96.42%	12,082,615	(3.34%)
Contributory Plan	1/1/2011	$ 29,920,228	$ 29,601,647	$ 318,581	101.08%	$ 22,847,401	1.39

Schedule of Annual Pension Cost, Actuarial Methods and Assumptions
(Expressed in Dollars)

Plan	DTC Pension Plan	Contributory Pension Plan
Contribution Rates:		
Employer	Actuarially Determined	5.00%
Participants	N/A	5.00%
Annual Pension Cost	$ 1,111,548	$ 535,681
Contributions Made	$ 1,111,468	$ 1,081,793
Actuarial Valuation Date	7/01/10	01/01/11
Actuarial Cost Method	Frozen Initial Liability	Entry Age Normal
Remaining Amortization Period	30	30
Asset Valuation Method	Market	Five-Year Smoothed Market
Actuarial Assumptions:		
Investment rate of return	7.50%	7.00%
Projected Salary Increases	4.50%	4.00%

Note: For the contributory pension plan valuation dated January 1, 2008, the actuarial cost method was changed from the aggregate method to the entry age normal method. In addition, the asset valuation method was changed to the five-year smoothed market method.
N/A: Not applicable

Required Supplementary Information – OPEB Trust

The following table presents additional information related to funding status and progress. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

OPEB Trust

The amount shown below as "actuarial accrued liability" is a measure of the difference between the actuarial present value of future plan benefits and the actuarial present value of future normal cost.

Schedule of Funding Status and Progress
(Expressed in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded Actuarial Accrued Liabilities (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3) / (5)
7/1/2011	$ 144	$ 6,769	$ 6,625	2.1%	$ 1,787	371%
7/1/2010	$ 104	$ 5,884	$ 5,780	1.8%	$ 1,798	321%

Valuation Date	July 1, 2011
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4.25%
Rate of Salary Increases	3.25% (plus merit scale)
Ultimate Rate of Medical inflation	5.00%

	Total	Governmental Activities	Business Type Activities
Net OPEB obligation at June 30, 2010	$ 986.9	$ 906.1	$ 80.8
Annual required contribution	553.4	506.6	46.8
Adjustment to annual required contribution	(39.7)	(36.4)	(3.3)
Annual OPEB cost	1500.6	1376.3	124.3
Employer contribution	(183.5)	(172.2)	(11.3)
Net OPEB obligation at June 30, 2011	$ 1,317.1	$ 1,204.1	$ 113.0

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2011 are as follows (dollar amounts in millions):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	$ 488.1	37%	$ 1,272.0

Delaware Transit Corporation - OPEB

As of June 30, 2011, the plan was 1.3% funded. The actuarial liability was $111.1 million. The covered payroll (annual payroll of active employees covered by the plan) was $31.3 million, and the ratio of the UAAL to the covered payroll was 350.3%.

In July 1, 2010 actuarial valuation, the projected unit credit method was used the linear proration to assumed benefit commencement. The actuarial assumptions included a partially funded 4.0% investment rate of return, 4.0% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 8.0% initially, reduced by decrements to 6.9% after 10 years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payroll over a 30-year amortization period.

STATE OF DELAWARE

Information on Federal Awards in Accordance with OMB Circular A-133

Year ended June 30, 2011

(With Independent Auditors' Report Thereon)

STATE OF DELAWARE

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Note: Throughout this document the State of Delaware has used the designation "S" to indicate funds received under the stimulus program "American Recovery and Reinvestment Act."

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

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 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, 2011, which collectively comprise the State's basic financial statements and have issued our report thereon dated February 6, 2012. As discussed in note 1(b) to the financial statements, the State adopted Governmental Accounting Standards Board Statement (GASB) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, during fiscal year 2011. 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. Other auditors audited the financial statements of the State's discretely presented component units, as described in our report on the State's financial statements. 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 auditors.

Internal Control over Financial Reporting

Management of the State is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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 deficiencies in the State's internal control over financial reporting described in items 2011-01 through 2011-03 in the accompanying schedule of findings and responses to be material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over

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financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in items 2011-04 through 2011-06 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of 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*.

We noted certain matters that we reported to the State's management in a separate letter dated March 6, 2012.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the State's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Secretary of Finance, Office of the Governor, Attorney General, Comptroller General, Office of Management and Budget, and the U.S. Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 6, 2012

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards

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

Compliance

We have audited the compliance of the State of Delaware (the State) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The State's basic financial statements include the operations of Delaware State University, the Delaware State Housing Authority, the Diamond State Port Authority, and the Charter Schools, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2011. Our audit, described below, did not include the operations of Delaware State University, the Delaware State Housing Authority, the Diamond State Port Authority, Riverfront Development Corporation, Delaware Technical and Community College (DTCC) Foundation, and the Charter Schools because either other auditors were engaged to perform audits in accordance with OMB Circular A-133 for these entities, or because less than $500,000 in federal awards were expended.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

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We were unable to obtain sufficient documentation supporting the compliance of the State with certain major programs regarding cash management, maintenance of effort, and special tests and provisions requirements, nor were we able to satisfy ourselves as to the State's compliance with those requirements by other auditing procedures. The specific instances of program compliance requirements are identified and described in the accompanying schedule of findings and questioned costs as follows:

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Education	11-ED-03	10.558	Child and Adult Care Food Program	Cash Management
		10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	
		84.010, S-84.389	Title I Grants to Local Educational Agencies	
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	
		84.367	Improving Teacher Quality State Grants	
		S-84.394	State Fiscal Stabilization Fund Cluster	
		S-84.395	State Fiscal Stabilization Fund, Race-to-the-Top Incentive Grants, Recovery Act	
Department of Education	11-ED-09	84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	Level of Effort (Maintenance of Effort)
Department of Health and Social Services	11-DHSS-01	10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster	Cash Management
		93.558, S-93.714	Temporary Assistance for Needy Families	
		93.575, 93.596, S-93.713	Child Care Cluster	
		93.767	State Children's Health Insurance Program	
		93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
		93.563, S-93.563	Child Support Enforcement	
		66.468, S-66.468	Capitalization Grants for Drinking Water State Revolving Funds	
		93.568	Low-Income Home Energy Assistance Program	
		93.268, S-93.268, S-93.712	Immunization Cluster	
Department of Agriculture	11-AGR-04	10.913	Farm and Ranch Lands Protection Program	Special Tests and Provisions (Property Monitoring Site Visits)

The State did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to the identified major programs. The specific instances of noncompliance are identified and described in the accompanying schedule of findings and questioned costs as follows:

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Education – Brandywine School District, Christina School District, Delmar School District, Red Clay Consolidated School District, Smyrna School District, Woodbridge School District	11-ED-01	84.010, S-84.389	Title I Grants to Local Educational Agencies	Allowable Costs (Effort Reporting)
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	
		84.367	Improving Teacher Quality State Grants	
		S-84.395	State Fiscal Stabilization Fund, Race-to-the-Top Incentive Grants, Recovery Act	
Department of Education	11-ED-10	10.558	Child and Adult Care Food Program	Eligibility (Subrecipients)
Department of Education	11-ED-11	10.558	Child and Adult Care Food Program	Subrecipient Monitoring

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
		10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	
Department of Health and Social Services – Division of Medicaid and Medical Assistance	11-DMMA-02	93.767	State Children's Health Insurance Program	Eligibility
Department of Health and Social Services – Division of Social Services	11-DSS-04	93.575, 93.596, S-93.713	Child Care Cluster	Reporting
Department of Health and Social Services – Division of Social Services	11-DSS-05	10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster	Reporting
Department of Health and Social Services – Division of Social Services	11-DSS-06	93.558, S-93.714	Temporary Assistance for Needy Families	Reporting
Department of Health and Social Services – Division of Child Support Enforcement	11-CSE-01	93.563, S-93.563	Child Support Enforcement	Special Tests and Provisions (Establishment of Paternity and Support Obligations)
Department of Health and Social Services – Division of Public Health	11-DPH-01	66.468, S-66.468	Capitalization Grants for Drinking Water State Revolving Funds	Subrecipient Monitoring
Department of Health and Social Services – Division of Public Health	11-DPH-03	93.268, S-93.268, S-93.712	Immunization Cluster	Special Tests and Provisions (Control, Accountability, and Safeguarding of Vaccine)
Department of Health and Social Services – Division of Public Health	11-DPH-04	93.268, S-93.268, S-93.712	Immunization Cluster	Special Tests and Provisions (Record of Immunization)
Department of Health and Social Services – Division of State Service Centers	11-SSC-01	93.568	Low-Income Home Energy Assistance Program	Allowable Costs, Subrecipient Monitoring
Department of Health and Social Services – Division of State Service Centers	11-SSC-02	93.568	Low-Income Home Energy Assistance Program	Reporting (Special Reporting)
Department of Health and Social Services – Division of State Service Centers	11-SSC-03	93.568	Low-Income Home Energy Assistance Program	Reporting, Period of Availability
Department of Health and Social Services – Division of State Service Centers	11-SSC-04	93.568	Low-Income Home Energy Assistance Program	Reporting (Financial Reporting)

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Labor – Division of Employment & Training	11-DOL-06	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Reporting (Section 1512)
Department of Labor – Division of Employment & Training	11-DOL-07	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Earmarking
Department of Agriculture	11-AGR-01	10.913	Farm and Ranch Lands Protection Program	Allowable Costs, Cash Management, Matching, Reporting
Department of Agriculture	11-AGR-03	10.913	Farm and Ranch Lands Protection Program	Reporting
Department of Transportation	11-DOT-01	20.500, 20.507, S-20.507	Federal Transit Cluster	Special Tests – Separate Accountability for ARRA Funding

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding compliance with the requirements identified in the second preceding paragraph, and except for the noncompliance identified in the preceding paragraph, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as follows:

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Delaware Technical and Community College - Terry Campus	11-DTCC-01	84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster	Borrower Data Transmission and Reconciliation (Direct Loans)
Department of Education	11-ED-06	84.010, S-84.389	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Separate Accountability for ARRA Funding)
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
		S-84.394	State Fiscal Stabilization Fund Cluster	
Department of Education – Woodbridge School District	11-ED-07	84.010, S-84.389	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Private School Children)
		84.367	Improving Teacher Quality State Grants	
Department of Education	11-ED-08	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Title I Monitoring Report)
Department of Education	11-ED-12	10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	Subrecipient Monitoring (Management Evaluation Report)
Department of Education	11-ED-13	10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	Reporting
Department of Health and Social Services	11-DHSS-02	93.558, S-93.714	Temporary Assistance for Needy Families	Special Tests and Provisions (ADP Risk Analysis and Security Review)
		93.575, 93.596, S-93.713	Child Care Cluster	
		93.767	State Children's Health Insurance Program	
		93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster	
		93.563, S-93.563	Child Support Enforcement	
Department of Health and Social Services – Division of Child Support Enforcement	11-DHSS-03	93.563, S-93.563	Child Support Enforcement	Suspension and Debarment
Department of Health and Social Services	11-DHSS-04	93.767	State Children's Health Insurance Program	Suspension and Debarment
		93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Health and Social Services	11-DHSS-05	10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster	Allowable Costs
		93.558, S-93.714	Temporary Assistance for Needy Families	
		93.575, 93.596, S-93.713	Child Care Cluster	
		93.767	State Children's Health Insurance Program	
		93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster	
Department of Health and Social Services – Division of Medicaid and Medical Assistance	11-DMMA-01	93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster	Eligibility
Department of Health and Social Services – Division of Social Services	11-DSS-01	93.575, 93.596, S-93.713	Child Care Cluster	Special Tests and Provisions (Fraud Detection and Repayment)
Department of Health and Social Services – Division of Social Services	11-DSS-03	10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster	Matching
Department of Health and Social Services – Division of Public Health	11-DPH-02	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Reporting
Department of Health and Social Services – Division of Public Health	11-DPH-05	66.468, S-66.468	Capitalization Grants for Drinking Water State Revolving Funds	Allowable Costs (Effort Reporting)
Department of Labor – Division of Vocational Rehabilitation	11-DOL-01	84.126, S-84.390	Vocational Rehabilitation Cluster	Eligibility
Department of Labor – Division of Employment & Training	11-DOL-02	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Eligibility

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Labor – Division of Employment & Training	11-DOL-03	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Subrecipient Monitoring
Department of Labor – Division of Employment & Training	11-DOL-04	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Reporting
Department of Labor – Division of Employment & Training	11-DOL-05	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Allowable Costs (Effort Reporting)
Delaware National Guard	11-DNG-01	12.401	National Guard Military Operations and Maintenance (O&M) Projects	Cash Management, Reporting
Delaware National Guard	11-DNG-02	12.401	National Guard Military Operations and Maintenance (O&M) Projects	Reporting
Department of Agriculture	11-AGR-02	10.913	Farm and Ranch Lands Protection Program	Cash Management
Office of Management and Budget	11-OMB-01	10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	Reporting (Federal Funding Accountability and Transparency Act)
		10.558	Child and Adult Care Food Program	
		10.557	Special Supplemental Nutrition Program for Women, Infants and Children	
		20.500, 20.507, S-20.507	Federal Transit Cluster	
		20.205, S-20.205, 20.219	Highway Planning & Construction Cluster	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
		66.458, S-66.458	Capitalization Grants for Clean Water State Revolving Funds	
		66.468, S-66.468	Capitalization Grants for Drinking Water State Revolving Funds	
		84.010, S-84.389	Title I Grants to Local Educational Agencies	
		84.367	Improving Teacher Quality State Grants	
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	
		93.767	State Children's Health Insurance Program	
		93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster	
Department of Finance	11-FIN-01	17.225, S-17.225	Unemployment Insurance	Cash Management
		10.557	Special Supplemental Nutrition Program for Women, Infants and Children	

Internal Control over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned

functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items identified below by two asterisks (**) to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items identified below by an asterisk (*) to be significant deficiencies.

State Agency	**Finding Number**	**CFDA No.**	**Program**	**Compliance Requirement**	
Delaware Technical and Community College - Terry Campus	11-DTCC-01	84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster	Borrower Data Transmission and Reconciliation (Direct Loans)	*
Department of Education – Brandywine School District, Christina School District, Delmar School District, Red Clay Consolidated School District, Smyrna School District, Woodbridge School District	11-ED-01	84.010, S-84.389	Title I Grants to Local Educational Agencies	Allowable Costs (Effort Reporting)	**
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		**
		84.367	Improving Teacher Quality State Grants		**
		S-84.395	State Fiscal Stabilization Fund, Race-to-the-Top Incentive Grants, Recovery Act		**
Smyrna School District	11-ED-02	84.010, S-84.389	Title I Grants to Local Educational Agencies	Allowable Costs (Indirect Costs)	*
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		*
Department of Education	11-ED-03	10.558	Child and Adult Care Food Program	Cash Management	**

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
		10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster		**
		84.010, S-84.389	Title I Grants to Local Educational Agencies		**
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		**
		84.367	Improving Teacher Quality State Grants		**
		S-84.394	State Fiscal Stabilization Fund Cluster		**
		S-84.395	State Fiscal Stabilization Fund, Race-to-the-Top Incentive Grants, Recovery Act		**
Department of Education and School Districts	11-ED-04	84.010, S-84.389	Title I Grants to Local Educational Agencies	Level of Effort (Maintenance of Effort)	*
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		*
		84.367	Improving Teacher Quality State Grants		*
Department of Education	11-ED-05	84.010, S-84.389	Title I Grants to Local Educational Agencies	Reporting	*
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		*
		84.367	Improving Teacher Quality State Grants		*
Department of Education	11-ED-06	84.010, S-84.389	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Separate Accountability for ARRA Funding)	*
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		*
		S-84.394	State Fiscal Stabilization Fund Cluster		*

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Education – Woodbridge School District	11-ED-07	84.010, S-84.389	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Private School Children)	*
		84.367	Improving Teacher Quality State Grants		*
Department of Education	11-ED-08	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Title I Monitoring Report)	*
Department of Education	11-ED-09	84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	Level of Effort (Maintenance of Effort)	**
Department of Education	11-ED-10	10.558	Child and Adult Care Food Program	Eligibility (Subrecipients)	**
Department of Education	11-ED-11	10.558	Child and Adult Care Food Program	Subrecipient Monitoring	**
		10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster		**
Department of Education	11-ED-12	10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	Subrecipient Monitoring (Management Evaluation Report)	*
Department of Education	11-ED-13	10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	Reporting	*
Department of Health and Social Services	11-DHSS-01	10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster	Cash Management	**
		93.558, S-93.714	Temporary Assistance for Needy Families		**
		93.575, 93.596, S-93.713	Child Care Cluster		**
		93.767	State Children's Health Insurance Program		**
		93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster		**
		93.563, S-93.563	Child Support Enforcement		**

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
		66.468, S-66.468	Capitalization Grants for Drinking Water State Revolving Funds		**
		93.568	Low-Income Home Energy Assistance Program		**
		93.268, S-93.268, S-93.712	Immunization Cluster		**
Department of Health and Social Services	11-DHSS-02	93.558, S-93.714	Temporary Assistance for Needy Families	Special Tests and Provisions (ADP Risk Analysis and Security Review)	*
		93.575, 93.596, S-93.713	Child Care Cluster		*
		93.767	State Children's Health Insurance Program		*
		93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster		*
		93.563, S-93.563	Child Support Enforcement		*
Department of Health and Social Services – Division of Child Support Enforcement	11-DHSS-03	93.563, S-93.563	Child Support Enforcement	Suspension and Debarment	*
Department of Health and Social Services	11-DHSS-04	93.767	State Children's Health Insurance Program	Suspension and Debarment	*
		93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster		*
Department of Health and Social Services	11-DHSS-05	10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster	Allowable Costs	*
		93.558, S-93.714	Temporary Assistance for Needy Families		*
		93.575, 93.596, S-93.713	Child Care Cluster		*
		93.767	State Children's Health Insurance Program		*

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
		93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster		*
Department of Health and Social Services – Division of Medicaid and Medical Assistance	11-DMMA-01	93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster	Eligibility	*
Department of Health and Social Services – Division of Medicaid and Medical Assistance	11-DMMA-02	93.767	State Children's Health Insurance Program	Eligibility	**
Department of Health and Social Services – Division of Social Services	11-DSS-01	93.575, 93.596, S-93.713	Child Care Cluster	Special Tests and Provisions (Fraud Detection and Repayment)	*
Department of Health and Social Services – Division of Social Services	11-DSS-02	93.575, 93.596, S-93.713	Child Care Cluster	Earmarking	**
Department of Health and Social Services – Division of Social Services	11-DSS-03	10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster	Matching	*
Department of Health and Social Services – Division of Social Services	11-DSS-04	93.575, 93.596, S-93.713	Child Care Cluster	Reporting	**
Department of Health and Social Services – Division of Social Services	11-DSS-05	10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster	Reporting	**
Department of Health and Social Services – Division of Social Services	11-DSS-06	93.558, S-93.714	Temporary Assistance for Needy Families	Reporting	**
Department of Health and Social Services – Division of Social Services	11-DSS-07	93.575, 93.596, S-93.713	Child Care Cluster	Special Tests and Provisions (Health and Safety Requirements)	*
Department of Health and Social Services – Division of Child Support Enforcement	11-CSE-01	93.563, S-93.563	Child Support Enforcement	Special Tests and Provisions (Establishment of Paternity and Support Obligations)	**
Department of Health and Social Services – Division of Public Health	11-DPH-01	66.468, S-66.468	Capitalization Grants for Drinking Water State Revolving Funds	Subrecipient Monitoring	**

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Health and Social Services – Division of Public Health	11-DPH-02	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Reporting	*
Department of Health and Social Services – Division of Public Health	11-DPH-03	93.268, S-93.268, S-93.712	Immunization Cluster	Special Tests and Provisions (Control, Accountability, and Safeguarding of Vaccine)	**
Department of Health and Social Services – Division of Public Health	11-DPH-04	93.268, S-93.268, S-93.712	Immunization Cluster	Special Tests and Provisions (Record of Immunization)	**
Department of Health and Social Services – Division of Public Health	11-DPH-05	66.468, S-66.468	Capitalization Grants for Drinking Water State Revolving Funds	Allowable Costs (Effort Reporting)	*
Department of Health and Social Services – Division of State Service Centers	11-SSC-01	93.568	Low-Income Home Energy Assistance Program	Allowable Costs, Subrecipient Monitoring	**
Department of Health and Social Services – Division of State Service Centers	11-SSC-02	93.568	Low-Income Home Energy Assistance Program	Reporting (Special Reporting)	**
Department of Health and Social Services – Division of State Service Centers	11-SSC-03	93.568	Low-Income Home Energy Assistance Program	Reporting, Period of Availability	**
Department of Health and Social Services – Division of State Service Centers	11-SSC-04	93.568	Low-Income Home Energy Assistance Program	Reporting (Financial Reporting)	**
Department of Labor – Division of Vocational Rehabilitation	11-DOL-01	84.126, S-84.390	Vocational Rehabilitation Cluster	Eligibility	*
Department of Labor – Division of Employment & Training	11-DOL-02	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Eligibility	*
Department of Labor – Division of Employment & Training	11-DOL-03	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Subrecipient Monitoring	**

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Labor – Division of Employment & Training	11-DOL-04	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Reporting	*
Department of Labor – Division of Employment & Training	11-DOL-05	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Allowable Costs (Effort Reporting)	**
Department of Labor – Division of Employment & Training	11-DOL-06	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Reporting (Section 1512)	**
Department of Labor – Division of Employment & Training	11-DOL-07	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster	Earmarking	**
Delaware National Guard	11-DNG-01	12.401	National Guard Military Operations and Maintenance (O&M) Projects	Cash Management, Reporting	*
Delaware National Guard	11-DNG-02	12.401	National Guard Military Operations and Maintenance (O&M) Projects	Reporting	*
Department of Agriculture	11-AGR-01	10.913	Farm and Ranch Lands Protection Program	Allowable Costs, Cash Management, Matching, Reporting	**
Department of Agriculture	11-AGR-02	10.913	Farm and Ranch Lands Protection Program	Cash Management	*
Department of Agriculture	11-AGR-03	10.913	Farm and Ranch Lands Protection Program	Reporting	**
Department of Agriculture	11-AGR-04	10.913	Farm and Ranch Lands Protection Program	Special Tests and Provisions (Property Monitoring Site Visits)	**

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Transportation	11-DOT-01	20.500, 20.507, S-20.507	Federal Transit Cluster	Special Tests – Separate Accountability for ARRA Funding	**
Office of Management and Budget	11-OMB-01	10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	Reporting (Federal Funding Accountability and Transparency Act)	*
		10.558	Child and Adult Care Food Program		*
		10.557	Special Supplemental Nutrition Program for Women, Infants and Children		*
		20.500, 20.507, S-20.507	Federal Transit Cluster		*
		20.205, S-20.205, 20.219	Highway Planning & Construction Cluster		*
		66.458, S-66.458	Capitalization Grants for Clean Water State Revolving Funds		*
		66.468, S-66.468	Capitalization Grants for Drinking Water State Revolving Funds		*
		84.010, S-84.389	Title I Grants to Local Educational Agencies		*
		84.367	Improving Teacher Quality State Grants		*
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		*
		93.767	State Children's Health Insurance Program		*
		93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster		*
Department of Finance	11-FIN-01	17.225, S-17.225	Unemployment Insurance	Cash Management	*
		10.557	Special Supplemental Nutrition Program for Women, Infants and Children		*

Schedule of Expenditures of Federal Awards

We have audited 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 as of and for the year ended June 30, 2011, and have issued our report thereon dated February 6, 2012, which includes a reference to other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. 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 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 financial statements, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget and the Department of Finance, management of the State of Delaware, the United States Department of Health and Human Services Office of the Inspector General for Audit, and other federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is public record and its distribution is not limited.

KPMG LLP

March 29, 2012

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

CFDA NO.		GRANT NAME	EXPENDITURES	
		U.S. Department of Agriculture		
10.025		Plant and Animal Disease, Pest Control, and Animal Care	$	374,922
10.028		Wildlife Services		67,014
10.069		Conservation Reserve Program		30,494
10.163		Market Protection and Promotion		21,175
10.169		Specialty Crop Block Grant Program		44,351
10.170		Specialty Crop Block Grant Program-Farm Bill		197,189
10.215		Low Input Farming Systems Research and Education		37,291
10.458		Crop Insurance Education in Targeted States		210,007
10.475		Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		495,082
10.479		Food Safety Cooperative Agreements		38,074
10.550		Food Distribution		2,686,750
		SNAP Cluster		
10.551		Supplemental Nurtrition Assistance Program (SNAP)	198,156,079	
10.561		State Administrative Matching Grants for the Supplemental Nutritional Assistance Program	12,507,533	
10.561	S	ARRA - State Administrative Matching Grants for the Supplemental Nutritional Assistance Program	288,356	
		Subtotal CFDA #10.561	12,795,889	
		Total Food Stamp Cluster		**210,951,968**
		Child Nutrition Cluster		
10.553		School Breakfast Program	1,364,224	
10.555		National School Lunch Program	32,206,176	
10.556		Special Milk Program for Children	35,110	
10.559		Summer Food Service Program for Children	2,233,085	
		Total Child Nutrition Cluster		**35,838,595**
10.557		Special Supplemental Nutrition Program for Women, Infants & Children		12,217,706
10.558		Child and Adult Care Food Program		12,995,983
10.560		State Administrative Expenses for Child Nutrition		532,694
		Emergency Food Assistance Cluster		
10.568		Emergency Food Assistance Program (Administrative Costs)	161,820	
10.568	S	ARRA - Emergency Food Assistance Program (Administrative Costs)	97,888	
		Subtotal CFDA #10.568	259,708	
10.569		Emergency Food Assistance Program (Food Commodities)	1,781,659	
		Total Emergency Food Assistance Cluster		**2,041,367**
10.565		Commodity Supplemental Food Program		160,143
10.574		Team Nutrition Grants		158,999
10.578		WIC Grants to States (WGS)		54,375
10.579		Child Nutrition Discretionary Grants Limited Availability		36,674
10.582		Fresh Fruit and Vegetable Program		1,145,706
10.664		Cooperative Forestry Assistance		175,673
10.675		Urban and Community Forestry Program		196,316
10.676		Forest Legacy Program		2,044,456
10.678		Forest Stewardship Program		128,368
10.680		Forest Health Protection		77,879
10.688	S	Recovery Act of 2009: Wildlife Fire Management		221,826
10.769		Rural Business Enterprise Grants		113,936
10.912		Environmental Quality Incentives Program		80,850
10.913		Farmland Protection Program		8,636,837
		Total U.S. Department of Agriculture		**292,012,700**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

CFDA NO.		GRANT NAME	EXPENDITURES	
		U.S. Department of Commerce		
		Public Works and Economic Development Cluster		
11.300		Investments for Public Works and Economic Development Facilities	30,508	
11.300	S	ARRA-Investments for Public Works and Economic Development Facilities	707,875	
		Subtotal CFDA #11.300	738,383	
11.307		Economic Development Special Economic Development and Adjustment Adjustment Assistance Program	501,057	
		Total Public Works and EDF Cluster		**1,239,440**
11.405		Andromonous Fish Conservation Act Program		50,341
11.419		Coastal Zone Management Administration Awards		2,425,108
11.420		Coastal Zone Management Estuarine Research Reserves		494,733
11.439		Marine Mammal Data Program		60,000
11.472		Unallied Science Program		751,521
11.474		Atlantic Coastal Fisheries Cooperative Management Act		117,421
11.555		Public Safety Interoperable Communications Grant Program		1,471,203
11.557	S	ARRA-Broadband technology Opportunities Program		374,548
11.558	S	ARRA-State Broadband Data and Development Grant Program		666,337
		Total U.S. Department of Commerce		**7,650,652**
		U.S. Department of Defense		
12.000		Issue of Department Of Defense excess equipment		32,825
12.113		State Memorandum of Agreement Program for the Reimbursement of Technical Services		37,436
12.401		National Guard Military Operations and Maintenance (O&M) Projects		19,629,625
12.Unassigned		State Grant Number 08-07-24-04		85,703
		Total U.S. Department of Defense		**19,785,589**
		U.S. Department of Housing and Urban Development		
14.235		Supportive Housing Program		1,285,361
14.251		Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants		94,699
14.401		Fair Housing Assistance Program		129,340
14.900		Lead-Based Paint Hazard Control In Privately-Owned Housing		700,336
		Total U.S. Department of Housing and Urban Development		**2,209,736**
		U.S. Department of the Interior		
		Fish and Wildlife Cluster		
15.605		Sport Fish Restoration	2,535,427	
15.611		Wildlife Restoration	1,811,725	
		Total Fish and Wildlife Cluster		**4,347,152**
15.614		Coastal Wetlands Planning, Protection and Restoration Act		62,328
15.615		Cooperative Endangered Species Conservation Fund		1,032,994
15.622		Sport fishing and Boating Safety Act		110,000
15.633		Landowner Incentive		321,518
15.634		State Wildlife Grants		365,400
15.657		Endangered Species Conservation Recovery		1,334
15.809		National Spatial Data Infrastructure Cooperative Agreements Program		10,513
15.904		Historic Preservation Fund Grants-In-Aid	437,993	
15.904	S	ARRA-Historic Preservation Fund Grants-In-Aid	27,567	
		Subtotal CFDA #15.904		465,560

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

CFDA NO.		GRANT NAME	EXPENDITURES	
15.916		Outdoor Recreation, Acquisition, Development and Planning		164,897
15.930		Chesapeake Bay Gateways Network		38,977
15.Unassigned		State Grant Number 09-03-03-01		90,114
		Total U.S. Department of the Interior		**7,010,787**
		U.S. Department of Justice		
16.017		Sexual Assault Services Program		109,640
16.202		Prisoner Reentry Initiative Demonstration (Offender Reentry)		277,930
16.203		Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)		31,258
16.523		Juvenile Accountability Incentive Block Grants		186,797
16.540		Juvenile Justice and Delinquency Prevention - Allocation to States		487,120
16.541		Part E Developing, Testing, and Demonstrating Promising New Programs		48,151
16.543		Missing Children's Assistance		255,497
16.544		Youth Gang Prevention		138,405
16.548		Title V - Delinquency Prevention Program		139,179
16.550		State Justice Statistics Program for Statistical Analysis Centers		74,300
16.554		National Criminal History Improvement Program		93,198
16.575		Crime Victim Assistance		1,576,458
16.576		Crime Victim Compensation		809,486
16.580		Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		2,635
16.582		Crime Victim Assistance/Discretionary Grants		24,994
16.588		Violence Against Women Formula Grants	746,114	
16.588	S	ARRA-Violence Against Women Formula Grants	415,207	
		Subtotal CFDA #16.588		1,161,321
16.593		Residential Substance Abuse Treatment for State Prisoners		97,010
16.595		Community Capacity Development Office		87,394
16.606		State Criminal Alien Assistance Program (SCAAP)		157,080
16.607		Bulletproof Vest Partnership Program		120,690
16.609		Project Safe Neighborhoods		61,450
16.710		Public Safety Partnership and Community Policing Grants		1,422,469
16.726		Juvenile Mentoring Program		89,499
16.727		Enforcing Underage Drinking Laws Program		278,100
16.735		Protecting Inmates & Safeguarding Communities		18,618
16.736		Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault		425,413
		JAG Program Cluster		
16.738		Edward Byrne Memorial Justice Assistance Grant Program	1,295,370	
16.803	S	Recovery Act - Edward Byrne Memorial Justice Assistance Grant	2,726,490	
		Total JAG Program Cluster		**4,021,860**
16.740		Statewide Automated Victim Information Notification (SAVIN) Program		269,437
16.741		Forensic DNA Capacity Enhancement Program		172,160
16.742		Paul Coverdell Forensic Sciences Improvement Grant Program		38,343
16.744		Anti Gang Initiative		11,738
16.746		Capital Case Litigation		500
16.748		Convicted Offender and/or Arrestee DNA Backlog Reduction Program		12,598
16.800	S	ARRA-Recovery Act-Internet Crimes Against Children Task Force Program		114,138
16.801	S	ARRA-Recovery Act-State Victim Assistance Formula Grant Program		162,592
16.802	S	ARRA-Recovery Act-State Victim Compensation Formula Grant Program		3,591
16.812		Second Chance Act Prisoner Reentry Initiative		2,878
16.816		John R Justice Prosecutors and Defenders Incentive Act		51,464
16.Unassigned		Unassigned - Asset Forfeiture - Justice		513,549
		Total U.S. Department of Justice		**13,548,940**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

CFDA NO.		GRANT NAME	EXPENDITURES	
		U.S. Department of Labor		
17.002		Labor Force Statistics		762,652
17.005		Compensation and Working Conditions		69,975
17.203		Labor Certification for Alien Workers		59,536
		Employment Services Cluster		
17.207		Employment Service / Wagner-Peyser Funded Activities	2,272,089	
17.207	S	ARRA-Employment Service / Wagner-Peyser Funded Activities	641,273	
		Subtotal CFDA #17.207	2,913,362	
17.801		Disabled Veterans' Outreach Program (DVOP)	170,136	
17.804		Local Veterans' Employment Representative Program	420,891	
		Total Employment Services Cluster		**3,504,389**
17.225		Unemployment Insurance	181,822,294	
17.225	S	Unemployment Insurance	127,264,167	
		Total Unemployment Insurance		309,086,461
17.235		Senior Community Service Employment Program	3,084,597	
17.235	S	ARRA-Senior Community Service Employment Program	5,195	
		Total Senior Community Service Employment Program		3,089,792
17.245		Trade Adjustment Assistance		1,755,750
		WIA Cluster		
17.258		WIA Adult Program	1,514,192	
17.258	S	ARRA-WIA Adult Program	81,000	
		Subtotal CFDA #17.258	1,595,192	
17.259		WIA Youth Activities	2,707,764	
17.259	S	ARRA-WIA Youth Activities	351,181	
		Subtotal CFDA #17.259	3,058,945	
17.260		WIA Dislocated Workers	764,526	
17.260	S	ARRA-WIA Dislocated Workers	973,569	
		Subtotal CFDA #17.260	1,738,095	
17.278		WIA Dislocated Formula Grants	1,399,071	
		Total WIA Cluster		**7,791,303**
17.266		Work Incentives Grant		6
17.269		Community Based Job Training Grants		153,390
17.271		Work Opportunity Tax Credit Program		89,422
17.275	S	ARRA-Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors		395,288
17.504		Consultation Agreements		408,642
17.505		OSHA Data Initiative		23,649
		Total U.S. Department of Labor		**327,190,255**
		U.S. Department of Transportation		
20.000		Coast Guard Marine, Harbor, and Waterfront Services		1,225
20.106		Airport Improvement Program		104,836
20.108		Aviation Research Grants		5,069
20.218		National Motor Carrier Safety		778,866
20.231		Performance and Registration Information Systems Management		8,381
20.232		Commercial Drivers License Program Improvement Grant		56,000
20.237		Commercial Vehicle Information Systems & Networks		2,635
20.238		Commercial Drivers License Information System (CDLIS) Modernization Grant		193,444

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

CFDA NO.		GRANT NAME	EXPENDITURES	
		Highway Planning and Construction Cluster		
20.205		Highway Planning and Construction	121,007,749	
20.205	S	ARRA-Highway Planning and Construction	61,384,884	
		Subtotal CFDA #20.205	182,392,633	
20.219		Recreational Trails Program	399,352	
		Total Highway Planning and Construction Cluster		**182,791,985**
		Federal Transit Cluster		
20.500		Federal Transit - Captial Investment Grants	193,989	
20.507		Federal Transit Cluster	8,314,878	
20.507	S	ARRA-Federal Transit Cluster	5,960,684	
		Subtotal CFDA #20.507	14,275,562	
		Total Federal Transit Cluster		**14,469,551**
		Transit Services Program Cluster		
20.513		Capital Assistance Program	526,591	
20.516		Job Access_Reverse Commute	415,222	
20.521		New Freedom Program	191,663	
		Total Transit Services Program Cluster		**1,133,476**
		Highway Safety Cluster		
20.600		State and Community Highway Safety	1,820,072	
20.601		Alcohol Impaired Driving Countermeasures Incentive Grants I	629,849	
20.602		Occupant Protection Incentive Grants	63,171	
20.609		Safety Belt Performance Grants	197,269	
20.610		State Traffic Safety Information System Improvement Grants	254,118	
20.612		Incentive Grant Program to Increase Motorcyclist Safety	125,116	
20.613		Child Safety and Child Booster Seats Incentive Grants	80,900	
		Total Highway Safety Cluster		**3,170,495**
20.505		Federal Transit_Metropolitan Planning Grants		503,145
20.509		Formula Grants for Other Than		474,569
20.514		Public Transportation Research - FTA		4,437
20.607		Alcohol Open Container Requirements		1,317,901
20.700		Pipeline Safety		48,628
20.703		Interagency Hazardous Materials Public Sector Training and Planning Grants		113,995
20.721		PHMSA Pipeline Safety Program One Call Grant		14,629
20.Unassigned		State Grant Number 07-05-15-33 and 08-03-18-01		329,305
		Total U.S. Department of Transportation		**205,522,572**
		Department of the Treasury		
21.Unassigned		Unassigned - Asset Forfeiture - Treasury		81,089
		Total Department of the Treasury		**81,089**
		Equal Employment Opportunity Commission		
30.001		Employment Discrimination - Title VII of the Civil Rights Act of 1964		167,885
		Total Equal Employment Opportunity Commission		**167,885**
		General Services Administration		
39.011		Unassigned		1,347,810
				1,347,810

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

CFDA NO.		GRANT NAME	EXPENDITURES	
		National Aeronautics and Space Administration		
43.Unassigned		Unassigned		44,080
		Total National Aeronautics and Space Administration		**44,080**
		Institute of Museum and Library Services		
45.310		Grants to States		1,758,320
45.312		Institute of Museum and Library Services-National Leadership Grant		82,390
		Total Institute of Museum and Library Services		**1,840,710**
		National Endowment for the Arts		
45.025		Promotion of the Arts - Partnership Agreements	910,124	
45.025	S	ARRA-Promotion of the Arts - Partnership Agreements	20,417	
		Total National Endowment for the Arts		**930,541**
		National Science Foundation		
47.076		Education and Human Resources	187,555	
47.076	S	ARRA-Education and Human Resources	124,462	
		Subtotal CFDA #47.076		312,017
47.080		Office of Cyber Infrastructure		83,296
		Total National Science Foundation		**395,313**
		U.S. Department of Veterans Administration		
64.203		State Cemetery Grants		1,144,302
		Total U.S. Department of Veterans Administration		**1,144,302**
		U.S. Environmental Protection Agency		
66.001		Air Pollution Control Program Support		1,222,911
66.032		State Indoor Radon Grants		157,780
66.034		Surveys Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act		313,822
66.040		State Clean Diesel Grant Program	300,747	
66.040	S	ARRA-State Clean Diesel Grant Program	1,017,193	
		Subtotal CFDA #66.040		1,317,940
66.202		Congressionally Mandated Projects		22,340
66.419		Water Pollution Control State and Interstate Program Support		1,320,001
66.432		State Public Water System Supervision		444,604
66.433		State Underground Water Source Protection		55,594
66.454		Water Quality Management Planning	95,530	
66.454	S	ARRA-Water Quality Management Planning	68,998	
		Subtotal CFDA #66.454		164,528
66.458		Capitalization Grants for Clean Water State Revolving Funds	11,732,811	
66.458	S	ARRA-Capitalization Grants for Clean Water State Revolving Funds	13,889,352	
		Subtotal CFDA #66.458		25,622,163
66.460		Nonpoint Source Implementation Grants		905,190
66.461		Wetland Program Development Grants		236,188
66.466		Chesapeake Bay Program		500,809

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

CFDA NO.		GRANT NAME	EXPENDITURES	
66.468		Capitalization Grants for Drinking Water State Revolving Funds	8,519,953	
66.468	S	Capitalization Grants for Drinking Water State Revolving Funds	5,379,555	
		Subtotal CFDA #66.468		13,899,508
66.472		Beach Monitoring and Notification Program Implementation Grants		284,974
66.511		Office of Research and Development Consolidated Research		9,755
66.605		Performance Partnership Grants		289,038
66.608		Environmental Information Exchange Network Grant Program and Related Assistance		168,111
66.707		TSCA Title IV State Lead Grants Certification of Lead Based Paint Professionals		148,094
66.801		Hazardous Waste Management State Program Support		714,143
66.802		Hazardous Substance Response Trust Fund		463,333
66.804		Underground Storage Tank Prevention, Detection and Compliance Program		557,840
66.805		Leaking Underground Storage Tank Trust Fund Program Corrective Action Program	291,122	
66.805	S	ARRA-Leaking Underground Storage Tank Trust Fund Program Corrective Action Program	611,176	
		Subtotal CFDA #66.805		902,298
66.809		Core Program Cooperative Agreements		484,771
66.817		State and Tribal Response Program Grants		457,352
66.818		Brownfields Assessment & Cleanup Cooperative Agreements		80,757
66.951		Environmental Education Grants		1,202
		Total U.S. Environmental Protection Agency		**50,745,046**
		U.S. Department of Energy		
81.041		State Energy Program	128,801	
81.041	S	ARRA-State Energy Program	3,323,000	
		Subtotal CFDA #81.041		3,451,801
81.042		Weatherization Assistance for Low-Income Persons	81,896	
81.042	S	ARRA-Weatherization Assistance for Low-Income Persons	1,423,961	
		Subtotal CFDA #81.042		1,505,857
81.122	S	ARRA-Electricity Delivery and Energy Reliability, Research, Development & Analysis		118,500
81.127	S	ARRA-Energy Efficient Appliance Rebate Program		2,469
81.128	S	ARRA-Energy Efficient and Conservation Block Grant Program		2,058,166
		Total U.S. Department of Energy		**7,136,793**
		U.S. Department of Education		
84.002		Adult Education - State Grant Program		1,602,117
		Title I, Part A Cluster		
84.010		Title I Grants to Local Educational Agencies	38,521,298	
84.389	S	ARRA-Title I Grants to Local Educational Agencies, Recovery Act	14,584,158	
		Total Title 1, Part A Cluster		**53,105,456**
84.011		Migrant Education - State Grant Program		277,097
84.013		Title I State Agency Program for Neglected and Delinquent Children		440,745
84.018		International; Overseas Seminars Abroad Bilateral Projects		751
		Special Education Cluster (IDEA)		
84.027		Special Education - Grants to States (IDEA, Part B)	35,188,322	
84.173		Special Education - Preschool Grants (IDEA Preschool)	1,247,378	
84.391	S	ARRA-Special Education Grants to States, Recovery Act	12,462,922	
84.392	S	ARRA-Special Education - Preschool Grants Recovery Act	446,731	
		Total Special Education Cluster		**49,345,353**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

CFDA NO.		GRANT NAME	EXPENDITURES	
		Student Financial Assistance Cluster		
84.007		Federal Supplemental Educational Opportunity Grants	312,422	
84.033		Federal Work Study Program	254,264	
84.063		Federal Pell Grant Program	21,927,940	
84.268		Federal Direct Student Loans	7,193,275	
		Total Student Financial Assistance Cluster		**29,687,901**
		Impact Aid Cluster		
84.041		Impact Aid (Tital VIII of ESEA)	1,755	
		Total Impact Aid Cluster		**1,755**
		TRIO Cluster		
84.042		TRIO - Student Support Services	332,898	
84.044		TRIO - Talent Search	621,443	
84.047		TRIO - Upward Bound	1,572,932	
		Total TRIO Cluster		**2,527,273**
84.048		Vocational Education - Basic Grants to States	2,325,054	
84.048	S	ARRA-Vocational Education - Basic Grants to States	1,481,582	
		Subtotal CFDA #84.048		3,806,636
84.069		Leveraging Educational Assistance Partnership		203,436
		Vocational Rehabilitation Cluster		
84.126		Rehabilitation Services - Vocational Rehabilitation Grants to States	9,838,729	
84.390	S	ARRA-Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act	837,294	
		Total Rehabilitation Cluster		**10,676,023**
		Independent Living State Grants Cluster		
84.169		Independent Living - State Grants	278,110	
84.398	S	ARRA-Independent Living State Grants Recovery Act	69,926	
		Total Independent Living State Grants Cluster		**348,036**
		Independent Living Services for Older Individuals Who Are Blind Cluster		
84.177		Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	239,963	
84.399	S	ARRA-Independent Living Services for Older Individuals Who are Blind Recovery Act	1,682	
		Total Independent Living Serv. For Older Individuals/Blind Cluster		**241,645**
		Early Intervention Services (IDEA) Cluster		
84.181		Special Education - Grants for Infants and Families with Disabilities	1,820,009	
84.393	S	ARRA-Special Education-Grants for Infants & Families, Recovery Act	1,111,023	
		Total Early Intervention Services (IDEA) Cluster		**2,931,032**
84.184		Safe and Drug-Free Schools and Communities - National Program		221,833
84.185		Byrd Honors Scholarships		122,250
84.186		Safe and Drug-Free Schools and Communities - State Grants		729,203
84.187		Supported Employment Services for Individuals with the Most Significant Disabilities		237,831
		Education of Homeless Children and Youth Cluster		
84.196		Education for Homeless Children and Youth	151,832	
84.196	S	ARRA-Education for Homeless Children and Youth	11,005	
		Subtotal CFDA #84.196	162,837	
84.387	S	ARRA-Education for Homeless Children and Youth Recovery Act	87,850	
		Total Education of Homeless Children and Youth Cluster		**250,687**
84.213		Even Start - State Educational Agencies		282,734
84.215		Fund for the Improvement of Education		1,154,549
84.243		Tech-Prep Education		202,030

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

CFDA NO.		GRANT NAME	EXPENDITURES	
84.265		Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training		41,623
84.282		Charter Schools		3,467
84.287		Twenty-First Century Community Learning Centers		4,464,056
84.293		Foreign Language Assistance		50,648
		Educational Technology State Grants Cluster		
84.318		Education Technology State Grants	767,020	
84.386	S	ARRA-Education Technology State Grants, Recovery Act	2,037,022	
		Total Educational Technology State Grants Cluster		**2,804,042**
84.304		Cooperative Education Exchange Program		521
84.323		Special Education-State Program Improvement Grants for Children with Disabilities		281,787
84.326		Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities		83,662
84.330		Advanced Placement Program		43,400
84.331		Grants to States for Workplace and Community Transition Training for Incarcerated Individuals		41,591
84.357		Reading First State Grants		246,726
84.358		Rural Education Achievement Program		106,012
84.365		English Language Acquisition Grants		586,686
84.366		Mathematics and Science Partnerships		409,177
84.367		Improving Teacher Quality State Grants		13,108,631
84.369		Grants for State Assessments and Related Activities		5,150,336
		School Improvement Grants Cluster		
84.377		School Improvement Grants	39,839	
84.388	S	ARRA-School Improvement Grants, Recovery Act	715,851	
		Total School Improvement Grants Cluster		**755,690**
84.378		College Access Challenge Grant Program		313,380
84.395	S	ARRA-State Fiscal Stabilization Fund (SFSF)-Race-to-the-top Incentive Grants, Recovery Act		10,494,776
		State Fiscal Stabilization Fund Cluster		
84.394	S	ARRA-State Fiscal Stabilization Fund (SFSF)-Education State Grants Recovery Act	44,663,713	
		Total State Fiscal Stabilization Fund Cluster		**44,663,713**
84.Unassigned	S	ARRA-Unassigned		2,702,584
		Total U.S. Department of Education		**244,748,881**
		U.S. Election Assistance Commission		
90.401		Help America Vote Act Requirements Payments		19,742
		Total U. S. Election Assistance Commission		**19,742**
		U.S. Department of Health and Human Services		
93.Unassigned		Unassigned		40,300
93.006		State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program		46,368
93.008		Medical Reserve Corps Small Grant Program		3,528
93.041		Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation		40,597
93.042		Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals		47,444

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

CFDA NO.		GRANT NAME	EXPENDITURES	
93.043		Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services		148,046
		Aging Cluster		
93.044		Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	1,938,135	
93.045		Special Programs for the Aging-Title III, Part C-Nutrition Services	2,824,136	
93.053		Nutrition Services Incentive Program	513,867	
93.705	S	ARRA-Aging Home-Delivered Nutrition Services for States	18,825	
93.707	S	ARRA-Aging Congregate Nutrition Services for States	161,844	
		Total Aging Cluster		**5,456,807**
93.048		Special Programs for the Aging-Title IV and Title II Discretionary Projects		329,276
93.052		National Family Caregiver Support		746,384
93.061		Innovations in Applied Public Health Research		19,361
93.064		Laboratory Training, Evaluation, and Quality Assurance Programs		60,738
93.069		Public Health Emergency Preparedness		4,767,873
93.071		Medical Enrollment Assistance Program		260
93.072		Lifespan Respite Care Program		12,266
93.089		Emergency System for Advanced Registration of Volunteer Health Professionals		42,380
93.092		Personal Responsibility Education Program		1,473
93.104		Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)		1,602,290
93.110		Maternal and Child Health Federal Consolidated Programs		411,364
93.116		Project Grants and Cooperative Agreements for Tuberculosis Control Programs		259,542
93.127		Emergency Medical Services for Children		119,903
93.130		Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices		214,314
93.136		Injury Prevention and Control Research and State and Community Based Programs		51,889
93.150		Projects for Assistance in Transition from Homelessness (PATH)		350,000
93.165		Grants for State Loan Repayment		45,779
93.197		Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children		168,628
93.217		Family Planning Services		1,191,505
93.236		Grants for Dental Public Health Residency Training		372,625
93.240		State Capacity Building		56,806
93.243		Substance Abuse and Mental Health Services Projects of Regional and National Significance		1,835,164
93.251		Universal Newborn Hearing Screening		123,957
93.259		Rural Access to Emergency Devices Grant		181,773
93.270		Adult Viral Hepatitis Prevention and Control		56,827
		Immunization Cluster		
93.268		Immunization Grants	10,747,711	
93.712	S	ARRA Immunization	234,000	
		Total Immunization Cluster		**10,981,711**
93.279		Drug Abuse Research Programs		6,000
93.283		Centers for Disease Control and Prevention, Investigations, and Technical Assistance		4,129,933
93.296		State Partnership Grant Program to Improve Minority Health		94,002
93.389		Research Infrastructure		180,686
93.402	S	ARRA - State Loan Repayment Program		8,800
93.414	S	ARRA - State Primary Care Offices		29,152
93.505		Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		77,766
93.506		ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers		191,972
93.507		Strengthening Public Health Infrastructure for Improved Health Outcomes		15,714

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2011

CFDA NO.		GRANT NAME	EXPENDITURES	
93.511		Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review		36,139
93.519		Affordable Care Act (ACA) Consumer Assistance Program Grants		24,416
93.521		The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements		175,602
93.523		The Affordable Care Act: Human Immunodeficiency Virus (HIV) Prevention and Public Health Fund Activities		19,863
93.525		State Planning and Establishment Grants for the Affordable Care Act (ACA)s Exchanges		79,358
93.556		Promoting Safe and Stable Families		1,049,605
		TANF Cluster		
93.558		Temporary Assistance for Needy Families	48,706,558	
93.714	S	ARRA Emergency Contingency Fund for Temporary Assistance for Needy Families	1,652,991	
		Total TANF Cluster		**50,359,549**
93.563		Child Support Enforcement	19,435,853	
93.563	S	ARRA-Child Support Enforcement	946,035	
		Total Child Support Enforcement		20,381,888
93.566		Refugee and Entrant Assistance-State Administered Programs		84,710
93.568		Low-Income Home Energy Assistance		12,724,456
		CSBG Cluster		
93.569		Community Services Block Grant	3,759,987	
93.569	S	ARRA-Community Services Block Grant	2,017,907	
		Total CSBG Cluster		**5,777,894**
93.586		State Court Improvement Program		342,636
		CCDF Cluster		
93.575		Child Care and Development Block Grant	3,486,267	
93.596		Child Care Mandatory & Matching Funds of the Child Care and Development Fund	11,303,466	
93.713	S	ARRA Child Care and Development Block Grant	741,854	
		Total CCDF Cluster		**15,531,587**
93.597		Grants to States for Access and Visitation Programs		73,326
93.599		Chafee Education and Training Vouchers Program (ETV)		94,195
		Head Start Cluster		
93.600		Head Start	149,415	
93.708	S	ARRA - Head Start	139	
		Total Head Start Cluster		**149,554**
93.630		Developmental Disabilities Basic Support and Advocacy Grants		466,432
93.643		Children's Justice Grants to States		77,175
93.645		Child Welfare Services - State Grants		979,785
93.658		Foster Care - Title IV-E	3,688,067	
93.658	S	ARRA-Foster Care - Title IV-E	16,465	
		Subtotal CFDA #93.658		3,704,532
93.659		Adoption Assistance	1,501,110	
93.659	S	ARRA-Adoption Assistance	29,410	
		Subtotal CFDA #93.659		1,530,520
93.667		Social Services Block Grant		5,679,075
93.669		Child Abuse and Neglect State Grants		107,579
93.671		Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes		766,707
93.674		Chafee Foster Care Independent Living		530,362
93.717	S	ARRA - Preventing Healthcare - Associated Infections		44,821
93.718		Health Information Technology Regional Extension Centers Program		492,557
93.719	S	ARRA - State Grants to Promote Health Information Technology		442,038
93.723	S	ARRA-Prevention and Wellness State, Territories and Pacific Islands		712,230

CFDA NO.		GRANT NAME	EXPENDITURES	
93.725	S	ARRA-Communities Putting Prevention to Work;		
		Chronic Disease Self-Mgmt Program		55,809
93.767		Children's Health Insurance Program		12,739,778
		Medicaid Cluster		
93.775		State Medicaid Fraud Control Units	1,094,907	
93.777		State Survey and Certification of Health Care Providers and Suppliers	1,357,784	
93.777	S	ARRA-State Survey and Certification of Health Care Providers and Suppliers	7,889	
		Subtotal CFDA #93.777	1,365,673	
93.778		Medical Assistance Program	762,040,173	
93.778	S	ARRA-Medical Assistance Program	129,907,408	
		Subtotal CFDA #93.778	891,947,581	
		Total Medicaid Cluster		**894,408,161**
93.779		Centers for Medicare and Medicaid Services (CMS)		
		Research, Demonstrations and Evaluations		200,817
93.791		Money Follows the Person Rebalancing Demonstration		767,414
93.859		Pharmacology, Physiology, and Biological Chemistry Research		505
93.889		National Bioterrorism Hospital Preparedness Program		1,243,506
93.913		Grants to States for Operation of Offices of Rural Health		132,706
93.917		HIV Care Formula Grants		4,735,668
93.938		Cooperative Agreements to Support Comprehensive School Health		
		Programs to Prevent the Spread of HIV and Other Important Health Problems		212,968
93.939		HIV Prevention Activities Non-Governmental Organization Based		188,700
93.940		HIV Prevention Activities Health Department Based		1,796,660
93.941		HIV Demonstration, Research, Public & Professional		
		Education Projects		35,633
93.944		Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency		
		Virus Syndrome (AIDS) Surveillance		437,549
93.946		Cooperative Agreements to Support State-Based Safe		
		Motherhood & Infant Health Initiative Programs		125,815
93.958		Block Grants for Community Mental Health Services		515,863
93.959		Block Grants for Prevention and Treatment of Substance Abuse		5,121,981
93.977		Preventive Health Services Sexually Transmitted Diseases Control Grants		481,137
93.991		Preventive Health and Health Services Block Grant		125,751
93.994		Maternal and Child Health Services Block Grant to the States		1,965,108
		Total U.S. Department of Health and Human Services		**1,082,251,323**
		Corporation for National and Community Service		
94.002		Retired and Senior Volunteer Program		166,328
94.003		State Commissions		119,542
94.006		AmeriCorps		695,547
94.009		Training and Technical Assistance		81,963
		Foster Grandparent/Senior Companion Cluster		
94.011		Foster Grandparent Program	653,343	
		Total Foster Grandparent/Senior Companion Cluster		**653,343**
		Total Corporation for National and Community Service		**1,716,723**
		Social Security Administration		
		Disability Insurance/SSI Cluster		
96.001		Social Security - Disability Insurance	6,768,477	
		Total Disability Insurance/SSI Cluster		**6,768,477**
96.008		Social Security - Benefits Planning, Assistance, and Outreach Program		87,001
		Total Social Security Administration		**6,855,478**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2011

CFDA NO.		GRANT NAME		EXPENDITURES
		U.S. Department Homeland Security		
97.001		Special Projects		42,826
		Homeland Security Cluster		
97.067		Homeland Security Grant Program	4,355,829	
		Total Homeland Security Cluster		**4,355,829**
97.012		Boating Safety Financial Assistance		973,869
97.017		Pre-Disaster Mitigation (PDM) Competitive Grants		85,872
97.023		Community Assistance Program State Support Services Element (CAP-SSSE)		87,616
97.029		Flood Mitigation Assistance		1,089,708
97.036		Public Assistance Grants		7,649,854
97.041		National Dam Safety Program		51,098
97.042		Emergency Management Performance Grants		2,736,001
97.043		State Fire Training Systems Grants		2,534
97.045		Cooperating Technical Partners		383,613
97.078		Buffer Zone Protection Plan (BZPP)		638,117
97.089		Driver's License Security Grant Program		142,077
97.111		Regional Catastrophic Preparedness Grant Program		170,000
97.116	S	ARRA-Port Security Grant Program		666,884
		Total U.S. Department Homeland Security		**19,075,898**
		Total Expenditures of Federal Awards	$	**2,293,432,845**

Legend:

S Award made under the American Recovery and Reinvestment Act

(1) Reporting Entity

The accompanying schedule of expenditures of federal awards (SEFA) presents the activity of all federal financial assistance programs of the State of Delaware (the State), except for those programs administered by the Delaware State University, the Diamond State Port Authority, the Delaware State Housing Authority, Riverfront Development Corporation, Delaware Technical and Community College Foundation, and the Charter Schools. The State's reporting entity is defined in note 1 to the State's basic financial statements.

(2) Basis of Accounting

The accompanying SEFA is presented using the cash basis of accounting, except for the inclusion of noncash items as required by OMB Circular A-133 as described in note (5) below. Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the State's basic financial statements.

(3) Federal Direct Student Loan Program

Federally guaranteed loans issued to students of Delaware Technical and Community College (the College) by financial institutions during the year ended June 30, 2011 totaled $7,193,275. This amount is included on the SEFA.

The College is responsible only for the performance of certain administrative duties with respect to federally guaranteed student loan programs, and accordingly, it is not practical to determine the balance of loans outstanding to students and former students of the College under these programs.

(4) Unemployment Insurance Funds

State unemployment tax revenues and the government and nonprofit contributions in lieu of State taxes (State UI funds) must be deposited into the Unemployment Trust Fund in the U.S. Treasury. Use of these funds is restricted to pay benefits under the federally approved State Unemployment Law. State UI funds as well as federal funds are reported in the SEFA under CFDA #17.225. The claim payments included in the SEFA at June 30, 2011 are $170,002,228.

(5) Noncash Assistance

The State is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements. Noncash amounts received by the State are included in the SEFA as follows:

CFDA Number	Program Name	Amount
10.550	Food Distribution (Commodities)	$ 2,533,857
10.569	Emergency Food Assistance Program (Commodities)	1,781,659
93.268	Immunization Grants (Vaccines)	9,119,829
10.551	Supplemental Nutrition Assistance Program (EBT Payments)	198,156,079

(6) Supplemental Nutrition Assistance Program

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.55 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2011.

(7) Subrecipients

It is not practical based on current systems to provide subrecipient expenditures by federal program.

SCHEDULE OF FINDINGS & QUESTIONED COSTS

Section 1: Summary of Auditors' Results

(1) Summary of Auditors' Results

Basic Financial Statements

(a) The type of report issued by KPMG LLP on the basic financial statements: **Unqualified.**

(b) Material weaknesses in the internal control over financial reporting were disclosed by KPMG LLP in connection with the audit of the basic financial statements: **Yes.**

(c) Significant deficiencies: **Yes.**

(d) Noncompliance which is material to the basic financial statements: **No.**

Federal Awards

(e) Disclaimer of opinion identified in the internal control over major programs: **No.**

(f) Material weaknesses identified in the internal control over major programs: **Yes.**

Major programs with material weaknesses:

CFDA No.	Program Name
10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster
10.558	Child and Adult Care Food Program
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
10.913	Farm and Ranch Lands Protection Program
17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Enforcement Act Cluster
20.500, 20.507, S-20.507	Federal Transit Cluster
66.468, S-66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.010, S-84.389	Title I Grants to Local Educational Agencies

CFDA No.	Program Name
84.027, 84.173, S-84.391, S-84.392	Special Education Cluster
84.367	Improving Teacher Quality Grants
S-84.394	State Fiscal Stabilization Fund Cluster
S-84.395	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
93.268, S-93.712	Immunization Cluster
93.558, S-93.714	Temporary Assistance for Needy Families Cluster
93.568	Low-Income Home Energy Assistance Program
S-93.563, 93.563	Child Support Enforcement
93.575, 93.596, S-93.713	Child Care Cluster
93.767	Children's Health Insurance Program
93.775, 93.777, S-93.777, 93.778, S-93.778	Medicaid Cluster

(g) Significant deficiencies identified in the internal control over major programs: **Yes.**

Major programs with significant deficiencies:

CFDA No.	Program Name
10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
10.913	Farm and Ranch Lands Protection Program

CFDA No.	Program Name
12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.225, S-17.225	Unemployment Insurance
17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster
20.205, S-20.205, 20.219	Highway Planning and Construction Cluster
20.500, 20.507, S-20.507	Federal Transit Cluster
66.458, S-66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468 S-66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster
84.010, S-84.389	Title I Grants to Local Educational Agencies, Part A, Cluster
84.027, 84.173, S-84.391, S-84.392	Special Education Cluster
84.367	Improving Teacher Quality State Grants
84.126, S-84.390	Vocational Rehabilitation Cluster
S-84.394	State Fiscal Stabilization Fund Cluster
93.558, S-93.714	Temporary Assistance For Needy Families Cluster
S-93.563, 93.563	Child Support Enforcement
93.575, 93.596, S-93.713	Child Care Cluster
93.767	Children's Health Insurance Program

CFDA No.	Program Name
93.775, 93.777, S-93.777, 93.778, S-93.778	Medicaid Cluster

(h) The type of report issued on compliance for major programs:

Type of Opinion	Program Name
Qualified	
10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
10.558	Child and Adult Care Food Program
10.913	Farm and Ranch Lands Protection Program
17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	Workforce Investment Act Cluster
20.500, 20.507, S-20.507	Federal Transit Cluster
66.468, S-66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.010, S-84.389	Title I Grants to Local Educational Agencies, Part A, Cluster

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2011

Type of Opinion	Program Name
84.027, 84.173, S-84.391, S-84.392	Special Education Cluster
84.367	Improving Teacher Quality State Grants
S-84.394	State Fiscal Stabilization Fund Cluster
S-84.395	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
93.558, S-93.714	Temporary Assistance For Needy Families Cluster
93.575, 93.596, S-93.713	Child Care Cluster
93.563, S-93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance Program
93.268, S-93.712	Immunization Cluster
93.767	Children's Health Insurance Program
93.775, 93.777, S-93.777, 93.778, S-93.778	Medicaid Cluster

Type of Opinion	Program Name
Unqualified	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.225, S-17.225	Unemployment Insurance
20.205, S-20.205, 20.219	Highway Planning and Construction Cluster
66.458, S-66.458	Capitalization Grants for Clean Water State Revolving Funds
84.126, S-84.390	Vocational Rehabilitation Cluster
84.007, 84.033, 84.063, 84.268	Student Financial Assistance Cluster
97.036	Public Assistance Grants

(h) Any audit findings disclosed that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes.**

(i) Identification of Major Programs:

CFDA Number	Federal Award Number	Program Name
10.551, 10.561, S-10.561	2010ID250341 2010IS252041 2010IS251941 2010IE251841 2010IS252241 2010IS251441 2010IS803641 2010IQ270341 2011IS251441	Supplemental Nutrition Assistance Program Cluster

CFDA Number	Federal Award Number	Program Name
	2011IS251941 2011IS252041 2011IS802641 2011IS803641 11081DE451E2518 11111DE458Q3903 11DE401S2522 12121DE401E2518 12121DE401S2519 12121DE401S2520 12121DE401S2522 12121DE401S8026 12121DE401S8036 1212DE401S2514	
10.553, 10.555, 10.556, 10.559	SCHOOL LUNCH SCHOOL BREAKFAST 1DE300301 2011IN109941 2012IN109941	Child Nutrition Cluster
10.557	2009IW500341 2010IW500341 2012IW100641 11111DE701W1003 11111DE701W1006	Special Supplemental Nutrition Program for Women, Infants & Children
10.558	1DE300301 2012IN109941 2012IN202041	Child and Adult Care Food Program
10.913	7321J2-7-13 7321J2-9-13 7321J2-1-11	Farm and Ranch Lands Protection Program
12.401	1001\1003-1005\1007\ 1002 1021 1023 APPEND 1625 1626 W912L5-10-2-1001 11-1001-3-4-5-10-40 11-1002 11-1021 11-1023 11-1627 12-1001 12-1002 12-1023 ANG O&M 2012	National Guard Military Operations and Maintenance (O&M) Projects

CFDA Number	Federal Award Number	Program Name
17.225, S-17.225	UI-16738-08-55-A-10 UI180120955A10 UI10446530955A10 UI180129MO UI195741055A10 DOL LOC - UI UI-22267-12-55-A-10	Unemployment Insurance
17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278	2-115-Y 2-117-Y 2-119-STYY 2-120-STYY 3-122-Y 3-124-Y 3-126-STYY 3-146-STSY 3-262-STSY AA-16020-07-55-A-10 AA-17113-08-55-A-10 AA-18631-09-55-A-10 AA-18631-6-XO AA-18631-6-ZO AA-20186-10-55-A-10 AA-21387-11-55-A-10 EM-19298-09-60-A-10 EM-20482-10-60-A-10 LM 1007	Workforce Investment Act Cluster
20.205, S-20.205, 20.219	TRANSPORTATION ENHANCEMENT	Highway Planning and Construction Cluster
20.500, S-20.500, 20.507, S-20.507	DE-03-0016 DE-04-X002 DE-90-X028 DE-90-X030 DE-90-X031 DE-90-X032 DE-90-X033 DE-96-X001	Federal Transit Cluster
66.458, S-66.458	CS-10000107-0 CS-10000108-0 CS-10000110-0 CS-10000111-0 2W-10000209-0	Capitalization Grants for Clean Water State Revolving Funds
66.468, S-66.468	2F-093914-09-0 FS-993914050 FS-99391406	Capitalization Grants for Drinking Water State Revolving Funds

CFDA Number	Federal Award Number	Program Name
	FS-99391407-0	
	WP-97360401-0	
	FS-993914-08-0	
	FS-99391406-0	
	FS-993914-09-0	
	FS-99391410	
	FS-99391411	
84.007, 84.033, 84.063, 84.268	P007A090812	Student Financial Assistance Cluster
	P007A090814	
	P007A090815	
	P007A110812	
	P007A110815	
	P033A090812	
	P033A090814	
	PO33A110812	
	P033A110814	
	P033A110815	
	P033P090815	
	P063P092885	
	P063P093468	
	P063P093817	
	P375A092885	
	P375A093468	
	P375A102885	
	P375A103817	
	AcadComp11TY40753	
	FWSP11OW1812	
	FWSP11OW1815	
	FWSP11OW1816	
	PELL11OW1802	
	PELL11ST1805	
	PELL11TY1806	
	PELL12OW41009	
	PELL12ST41009	
	PELL12TY41009	
	SEOG11OW1822	
	SEOG11OW1825	
	SEOG11OW1826	
	DIRLEND11OW	
	DIRLEND11ST	
	DIRLEND11TY	
	DIRLEND12OW40340	
	DIRLEND12ST40340	
	DIRLEND12TY40340	

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2011

CFDA Number	Federal Award Number	Program Name
84.010, S-84.389	S010A070008 S010A080008 S010A090008 S010A100008A S010A110008 S013A090008 S365A100008 S389A090008 S394A090053 A389A090008 H391AO90022 S389A090008 SFSF49-09 SFSF50-09 SFSF51-09 SFSF52-09	Title I Grants to Local Educational Agencies
84.027, 84.173, S-84.391, S-84.392	H027A060022 H027A1010022 H027060022 HO27A060022 H027A070022 H027A080022 H027A090022 H027A100022A H027A110022 H173A070025 H173A080025 H173A090025 H173A100025 H173A110025 H391A090022 H392A090025	Special Education Cluster (IDEA)
84.126, S-84.390	H126A090009 H126A090010 H126A100009 H126A100011 H126A110009 H126110010 H126120010 H126A120009 H126A110009 H390A090009 H390A090010	Vocational Rehabilitation Cluster

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 1: Summary of Auditors' Results

Year ended June 30, 2011

CFDA Number	Federal Award Number	Program Name
84.367	S367A080007 S367A090007 S367A100007A S367A110007 S367B070008A S367B080008 S367B090008A S367B100008 S367B110008	Improving Teacher Quality State Grants
S-84.394	S394A090053 S397A090053	State Fiscal Stabilization Fund Cluster
S-84.395	S395A100007	State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act
93.268, S-93.268, 93.712	3H23IP322567-07SI 5H231P322567-08 OCCH322567	Immunization Cluster
93.558, S-93.714	G-0802DETANF G-0902DETANF G-1002DETANF G-1001DETAN2 0901DETAN2 1102DETANF 1202DETANF	Temporary Assistance for Needy Families Cluster
93.563, S-93.563	0904DE4004 1004DE4002 1004DE4004 1104DE4004 1204DE4005	Child Support Enforcement
93.568	G-09B1DELIEA G-10B1DELIEA G-11B1DELIEA G12B1DELIEA 1001DELIE2	Low-Income Home Energy Assistance Program
93.575, 93.596, S-93.713	07072507A 2009G9966005 0801DECCDF 1001DECCDF 1101DECCDF 1201DECCDF G-0801DECCDF G-0901DECCDF G1001DECCDF	Child Care Cluster

CFDA Number	Federal Award Number	Program Name
	G0901DECCD7	
93.767	05-0805DE5021 05-0905DE5021 1005DE5021 1105DE5021	State Children's Health Insurance Program
93.775, 93.777, S-93.777, 93.778, S-93.778	09INC-FMAP 01-1001-DE-5050 01-1101-DE-5050 05-1005-DE-5001 05-1005-DE-5002 05-1005-DE-5ASC 05-01005DEARRA 05-1101DE5ADM 05-1205DE5ADM 05-1205DE5MAP 05-1205-DE-5002 05-1005DE5028 05-1005DE5048 1201-DE-5050 1005DE5MAP 1005DE5000 1105DE5001 1105DEARRA 1105DEEXTN 1205DE5000 1205DE5001 1205DEIMPL 1205DEINCT	Medicaid Cluster
97.036	FEMA-1654-DR-DE FEMA-1896-DR-DE FEMA-3336-EM-DE FEMA-4037-DR-DE	Public Assistance Grants

(k) Dollar threshold used to distinguish between Type A and Type B programs: **$6,880,299.**

(l) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No.**

(2) Findings Related to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards:*

Six findings related to the basic financial statements for the year ended June 30, 2011 were reported in accordance with *Government Auditing Standards* by KPMG LLP. See ***Section 2*** of the Schedule of Findings and Questioned Costs for items **2011-01** to **2011-06**.

(3) Findings Related to Federal Awards*:*

See ***Section 3*** of the Schedule of Findings and Questioned Costs.

SCHEDULE OF FINDINGS & QUESTIONED COSTS

Section 2: Financial Statement Findings

2011-01. Lack of Controls over the Comprehensive Annual Financial Report (CAFR) Preparation (associated with prior year findings 2010-01, 2009-01, 2008-1, 2008-05, 2007-01, 06-FIN-01, 06-FIN-02, 05-FIN-01, 05-FIN 02, 04-FIN-01, 04-FIN-02, 03-FIN-01, 03-FIN-02)

Background/Condition

The State implemented a new accounting system, First State Financial (FSF), on July 1, 2011. Although FSF has the functionality to generate a balance sheet, this functionality was not utilized during the year. Instead, as in prior years, management continued to operate on a cash receipt and disbursement basis of accounting during the year. At year-end, the State's Division of Accounting (DOA) is responsible for the compilation of the State-wide financial statements in accordance with generally accepted accounting principles (GAAP).

As the FSF is not used throughout the year to capture transactions on the accrual basis of accounting, the year-end compilation of the State-wide financial statements is extremely complex and heavily reliant on manual adjustments to properly record accruals and other non-routine transactions. To add to the complexity, the State's component units and several large agencies/departments have separate audits that need to be coordinated. Unless an agency receives a separate audit, accrual accounting packages (GAAP packages) continue to be completed annually by personnel in departments and agencies across the State. As such, the State's financial reporting process is dependent on cooperation from the State's component units and other agencies. The State's Division of Accounting (DOA) compiles this information using an ad-hoc report writer software program, CAFR 2000.

As noted above, when there is not a separate audit, GAAP packages are completed annually by personnel in departments and agencies across the State. As a result, there are many manual processes completed by agency/department personnel. These processes include the development of accounts receivables and related allowances for uncollectible accounts, accruals of State obligations, the development of construction-in-progress related to capital assets, and the capture of cash and investment balances controlled outside of the Treasurer's Office. Many of the State's agencies use systems outside of the current statewide accounting system to gather and track the required information. This adds to the complexity of the year-end reporting and reconciliation process. In addition, the GAAP package reporting process includes the preparation of over 125 packages and relies heavily on agency personnel, many of whom lack the necessary experience and accounting background to properly complete the packages. DOA conducts training on the preparation of the packages and conducts internal reviews of certain GAAP packages to ensure that amounts are accurate and properly supported. As a result, the financial statement preparation process still entails compiling worksheets, completing reconciliations, customizing reports and recording various adjustments.

While a timeline was developed for the completion of major milestones for the CAFR process, there were significant delays due to the complexity of the process and the need to obtain a significant portion of financial data from the various agencies and other entities that are included within the State's reporting entity.

Consequently, the many sources of information and the extent of modification necessary to such information results in a financial reporting process that continues to be highly complex and susceptible to errors. During our audit, we noted the following deficiencies in internal control over financial reporting as follows:

General Fund Rental and Sales Revenues:

During our audit of general fund *Rentals and Sales*, we found one (1) error amounting to $1,670 where revenue was improperly classified. When this error was extrapolated over the entire account balance, it resulted in a projected error of $12.3 million. No adjustment was made to the financial statements as a result of this error. The item in error was related to a fee charged by the State Fire Marshall to companies licensed to perform inspections in accordance with National Fire Protection Association's National Fire Codes and Standards. As such, this transaction should have been classified as *Licenses, Fees, Permits, and Fines*. In addition, there were significant fluctuations between these accounts from prior years. Management was unable to clearly articulate the reasons for these fluctuations.

Year End Accounts Payable Accruals:

We noted numerous errors during our testing of the June 30, 2011 accounts payable balances in the general, federal, and capital projects funds. In all three funds, we noted that numerous invoices were not properly accrued as of June 30, 2012. Specifically, we noted the following:

- One (1) general fund expenditure related to service periods that crossed the State's fiscal year-end; however, the accrual was not properly pro-rated between fiscal years.
- Two (2) invoices for services that occurred in fiscal year 2012 were improperly accrued in the general fund as of June 30, 2011.
- One (1) federal fund expenditure related to service periods that crossed the State's fiscal year-end; however, the accrual was not properly pro-rated between fiscal years.
- Two (2) invoices for services that occurred in fiscal year 2012 were improperly accrued in the federal fund as of June 30, 2011.
- Four (4) invoices in the capital projects fund related to services that occurred in fiscal year 2011 that were not properly accrued in the capital projects fund as of June 30, 2011.

The aggregate net overstatements in the general and federal funds were $18.5 million and $21.0 million, respectively; due to the significance of these entries, adjustment was required in the financial statements for these amounts. The net understatement in the capital projects fund was $1.7 million. An adjustment for this amount was not recorded in the financial statements.

Taxes Receivable

During our audit of the taxes receivable GAAP package, we noted that the allowance for doubtful accounts calculation was inconsistent with the methodology implemented during fiscal year 2009. Specifically, we noted that the Division of Revenue's GAAP package contained several errors resulting in an understatement of $11.6 million in taxes receivable.

Quarterly Treasurer's Office Reconciliation

The State could not provide an accurate detailed listing of outstanding deposits for the September 2010 and December 2010 reconciliations. For the March 2011 reconciliation, the State provided a system report, FSF Outstanding Deposits report (DAR008O), as a detailed listing of outstanding deposits as of March 31, 2011 which totaled $48.1 million. However, the outstanding deposits as of March 31, 2011 per the quarter-end reconciliation totaled $47.2 million, resulting in a variance of approximately $900 thousand. In order to

properly reconcile amounts from the accounting records to the bank balances, a complete listing of outstanding deposits must be maintained.

Loans and Notes Receivables

During our audit of *Loans and Notes Receivables*, we noted that the loan detail received from the DOA was $2.9 million less than the amount recorded in the financial statements. Specifically, the balance recorded in the federal fund for *Loans and Notes Receivables* was $258.9 million while the total from the loan tracking software obtained from the State was $256.0 million, resulting in an overstatement of $2.9 million.

Implementation of New Accounting Pronouncement -Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB No. 54):

The State implemented GASB No. 54 during fiscal year 2011. During our audit of the implementation, we noted the following errors in the general fund, which required adjustment in the financial statements:

- There was a general lack of adequate underlying documentation to support the proposed classifications included in management's designation of fund balance, including $820 thousand relating to the Ryan White Comprehensive AIDS Resources Emergency (CARE) rebate program, $750 thousand of Medicaid Escrow funds, and $760 thousand of Food Stamps as committed fund balance;
- $32.6 million of the general fund's fund balance was improperly classified as assigned instead of committed fund balance;
- $13.3 million of Medicaid and Children's Health Insurance Program (CHIP) was improperly classified as committed instead of restricted fund balance;
- $1.3 million of Federal Child Support was improperly classified as committed instead of restricted fund balance;
- $558 thousand of Women, Infants, and Children (WIC) funds was improperly classified as committed fund balance instead of restricted fund balance.

Grants Receivable

During our audit of the Department of Health and Social Services (DHSS) *Grants Receivables* GAAP package information, we noted the receivable balance was calculated net of related deferred revenue balances resulting in both deferred revenues and grant receivables being understated by $9.7 million, which required adjustment in the federal fund financial statements.

Secondly, during our audit of the Department of Natural Resources and Environmental Control (DNREC) GAAP package for grants receivables, we noted the Delaware Clean Water grant was improperly posted in the amount of $6.3 million. Per review of the supporting documentation (E-3 form), we noted the grants receivable balance should have been zero; however, the total amount per FSF was incorrectly recorded due to human error causing the balance to be overstated by $6.3 million. Due to the significance of this error, an adjustment was made to the financial statements.

Lastly, during our overall review of *Grants Receivables*, we obtained the Federal drawdown requests prepared by various agencies, including DHSS, Department of Education, Department of Agriculture and Department of Labor for the 60-day period following year-end, which drives revenue recognition, and noted that the entire amount of the receivables reported in the related GAAP packages was recorded as

revenue, even though $53.2 million of the funds were not drawn-down within the 60 day period of availability. Consequently, it was necessary to reclassify this amount from *Grant Revenue* to *Deferred Revenue* in the financial statements.

Criteria

According to the National Council on Government Accounting (NCGA) Concept Statement No. 1, *Objectives of Financial Reporting,* "The overall goal of accounting and financial reporting for governmental units is to provide: 1) financial information useful for making economic, political and social decisions, and demonstrating accountability and stewardship; and 2) information useful for evaluating managerial and organizational performance."

In order to ensure such information is useful in decision-making and evaluating managerial and organizational performance, as well as demonstrating accountability and stewardship, controls must be properly designed, in place, and operating effectively to ensure that the State's accounting and financial information is fairly stated in accordance with GAAP and that the State's assets are appropriately safe-guarded.

Cause

First State Financials

Although it has FSF has the ability and the flexibility to accommodate both modified and full accrual accounting, the system was implemented to manage the State's operations, which are budgeted and managed on a cash basis. Specifically, the State is not fully utilizing the functionality available to accommodate either modified or full accrual accounting. Additionally, the State had difficulty producing timely ad-hoc reports for financial reporting and analysis. As a result, the reports generated from FSF require significant manual manipulation through the use of spreadsheets to develop the trial balances and related financial statements and to provide the detail necessary for auditing. Lastly, certain State agencies/departments do not have sufficient working knowledge of how to properly generate and interpret various system reports leading to errors and delays in reporting financial information to DOA.

Personnel Assigned

Many of the personnel assigned to complete the GAAP packages sent to DOA by the agencies/departments are not formally-trained accountants and; therefore, do not have the necessary skills and experience to accurately prepare the GAAP packages. In addition, there was a significant amount of turnover at the agencies with the personnel responsible for completing the GAAP packages in recent years.

Lack of Managerial Review

Controls are in place over management review of financial statement information provided by the agencies/departments for inclusion in the State-wide financial statements; however, the controls were not operating effectively. Instead, management relies heavily on the audit process to identify and propose corrections to errors in the financial statements.

Effect

Due to the manual processes used to compile financial statement information and the reliance on the audit process to detect and correct such errors, material misstatements to the financial statements could go undetected.

Recommendation

We recommend that management refine the process used to complete the draft State-wide financial statements, notes to the financial statements, all significant adjustments, conversion to accrual adjustments, and prepare necessary account reconciliations. This process should consist of fully utilizing FSF to record transactions on the modified and/or full accrual accounting. The review process should include an evaluation of the reasonableness of individual financial statement line items by an individual with sufficient accounting and financial reporting experience and knowledge of the processes at each agency to detect and correct material inconsistencies and errors. Specific focus should be placed on achieving proper accounting period cut-off and the valuation of accounts associated with the GAAP package process and financial statement preparation.

We encourage the State to continue to monitor the agency accountants and expand the knowledge base of personnel who have a working knowledge of GAAP. This monitoring process is critical to the successful oversight of the GAAP package process and financial reporting processes in the outside departments and agencies that report to the DOA for year-end financial reporting. In addition, due to the size and complexity of the State, we recommend that the State continue to expand its resources with additional trained accountants at State agencies/departments.

We continue to recommend that, if the State continues to rely on the manual GAAP package preparation process to derive financial statement amounts, that this process be a priority for all entities/agencies included in the State's financial reporting entity. The importance of accurate and timely submission of financial information should be communicated to the senior management responsible for these entities/agencies. The process to transition the preparation of the GAAP package to new personnel should be planned and coordinated to maximize knowledge transfer. In addition, we recommend that accounting resources in the DOA continue to communicate and train the agency staff year-round to improve the year-end reporting process and develop better information sources to complete the GAAP packages. The current year training on GAAP package preparation should be updated to include more theoretical basis for what should be included in the packages.

Lastly, we recommend that the DOA take appropriate ownership of the State's financial statements and the amounts therein and rely less on the audit process to identify errors and propose significant adjustments.

Views of Responsible Officials

The State takes great pride and ownership in its new accounting system (the 'System') and the related method that was undertaken to evaluate business processes associated with our thirty year old decommissioned legacy system. The evaluation process included an in depth review of legacy processes, consultation with external auditors, communication with other States, and inquiries of industry consultants and professional organizations. Based on the immense scale of the State's System implementation plan and the results of our evaluation, it was decided to address legacy business process conversion in phases. The phased approach would allow for systematic and gradual conversion of core business processes and decrease system conversion risks. Processes such as journal entry review, grant management and capital asset management were implemented when the system when live in July 2010. Other initiatives, which include the recording and reporting of certain accrual basis transactions, decreased reliance on the GAAP package process, and increased reliance on certain System reporting tools, will further help to improve statewide efficiency once implemented. The successful implementation of such initiatives will also improve the CAFR compilation process.

It should also be noted that the State operates and records transactions on the cash and budget basis of accounting. The cash basis of accounting differs significantly from the accrual basis of account, which is the State's basis for reporting information included in the annual CAFR.

This fiscal year's CAFR season was a very challenging. Timelines were adjusted throughout the audit season to account for auditor and auditee learning curves, unanticipated changes in resources, and the addition of certain Single Audit requests, not previously funneled through the Division of Accounting (DOA). DOA will continue to work with our external auditors to refine our protocol for communicating throughout the audit process.

There are often timing and coordination issues as it relates to outside audits over entities whose financial information is also reflected in schedules such as loans and notes receivables, grants receivables, and accounts payable. We recognize which agencies are responsible for the material balances and will work with those agencies to make adjustments outside of the GAAP package process.

In the future, DOA will discuss our planned GASB Statement implementation approach with our external auditors earlier in the audit process. The GASB Statement No. 54 approach was discussed at the start of the audit, however, detail was not provided until one month after the start of audit fieldwork. DOA performed extensive research on the Statement and participated in a National Association of State Comptrollers GASB 54 Committee to develop a baseline for our approach. However, some of the conclusions reached, based on information received and inquires made, conflicted with the opinions of our auditors; resulting in many of the differences noted.

2011-02. Lack of Controls over Accounting and Reporting at the Local School Districts (associated with prior year findings 2010-02, 2009-02, 2008-03)

Background/Conditions

The school districts (LSDs) are considered part of the State's primary government and the LSDs' activity is consolidated into the financial information of the State and reported to the DOA through the use of GAAP packages, as previously described. As such, a series of modified accrual journal entries are prepared and recorded by the DOA based on the information in the GAAP packages. Due to the nature of these entities, the LSDs are extremely de-centralized from the rest of the State's primary government agencies. In addition, the majority of LSD personnel with the responsibility for the preparation and submission of the financial information used in the preparation of the State's financial statements lack the necessary experience and accounting background to properly and accurately complete the information required on the GAAP packages.

During the course of our audit, we selected and performed detailed procedures for eight LSDs as follows: Brandywine, Colonial, Christina, Delmar, New Castle County Vo-Tech, Smyrna, Red Clay, and Woodbridge. Although the information submitted by the local school districts is subject to review by the DOA, we noted the following:

School District Review of CAFR Information

A robust and through review of the LSDs' GAAP package information was not properly performed by the DOA. Specifically, during our analytical review of the *School District Financial Statement Consolidation Schedule* (Consolidation Schedule), we noted that the *Other Revenue* balance was approximately $30 million, which appeared significantly higher in comparison to the remaining revenue categories reflected on the Consolidation Schedule, based on our understanding of the LSD's operations. Based on discussions with the DOA, we determined that the DOA had not performed a sufficient analytical review of the LSDs financial information to properly identify unusual balances nor did DOA perform any follow-up with the LSDs to detect material errors in classification of revenue amounts. Additionally, the LSDs have insufficient knowledge of how the LSD activity is compiled into the State-wide financial statements, and therefore, the LSDs do not perform a review over the Consolidation Schedule.

As a result, we noted various items that were misclassified, including approximately $30.9 million which was double-counted as revenues and expenses due to inter-agency receipts and expenditures of federal funds that were not properly eliminated. As a result, these amounts were adjusted in the financial statements.

Criteria

In order to ensure financial information is useful in decision-making and evaluating managerial and organizational performance, as well as demonstrating accountability and stewardship, controls must be in place and operating effectively to ensure that the State's accounting and financial information is fairly stated in accordance with GAAP.

Cause

There is a lack of formally-trained accountants with the necessary skills to accurately prepare the financial information included in the State-wide financial statements. The DOA inappropriately relies on the LSDs to properly use the FSF system to record transactional detail including the proper use of vouchers, cash

receipts and intra-governmental vouchers and relies heavily on the audit process to identify and propose corrections to GAAP package amounts.

Effect

Due to the manual processes used to compile financial statement information and the reliance on the audit process to detect and correct such errors, material misstatements to the financial statements could go undetected.

Recommendations

We recommend that LSD personnel be adequately trained on the proper use of FSF to record transactions. We further recommend that the DOA perform an analytical review over the *School District Financial Statement Consolidation Schedule* and perform a thorough review of all manual journal entries and GAAP package amounts to ensure that such entries and amounts are recorded accurately. We also recommend that, with the assistance of the DOA, the LSDs perform account analyses of financial statement line items to ensure the propriety of the composition of financial statement amounts.

Views of Responsible Officials

DOA facilitates trainings and issues policies throughout the year to ensure that accounting procedures are appropriately communicated throughout the State. DOA's mission is to provide accounting expertise to the State's many organizations and monitor compliance with prescribed policies. During the CAFR preparation process all organizations included in the CAFR reporting unit make representations to DOA that those polices have been followed. This, along with monitoring procedures that are performed throughout the year, allows DOA the ability to rely on information that over 2400 users enter into the System on a daily basis. Even with such representations, DOA performs varied analysis of account balances and reviews accounts for material differences. However, due to the detailed nature of testing performed during the audit, external auditors will continue to identify more financial discrepancies than those found by our higher level analyses. DOA is currently revising trainings and other external communication tools, such as the Budget and Accounting Manual, in order to decrease potential discrepancies going forward.

2011-03. Financial Reporting at the Delaware Department of Transportation (Department) (associated with prior year findings 2010-05, 2009-05, 2008-10, 2008-11, 2007-03, 2007-05, 06-DOT-01)

Background/Condition

Prior Year Observation

The Department has contracted for the past several years with an outside CPA firm to compile its financial statements for the Transportation Trust Fund, for the Delaware Transit Corporation, and for the consolidated Delaware Department of Transportation entity.

The process used to obtain the necessary information for balances outside of the Transportation Trust Fund is not clearly documented, does not occur on a clear timetable, and relies heavily on one individual to provide information requested by the contractor for compilation purposes. Financial statement items impacted include receivables, payables, and capital assets, including infrastructure assets.

There is no independent review of the information for completeness, accuracy, and conformity with generally accepted accounting principles prior to its being provided to the contractor, increasing the risk of potential undetected misstatements, errors, or omissions.

Additionally, as the State of Delaware is a complex organization with a significant amount of transactions occurring between State agencies, accounting for these transactions requires constant communication between agencies in order to properly record the financial position of each agency. Information for other post employment benefits and pollution remediation obligation was not available timely from other State agencies.

Current Year Status

With the implementation of the FSF, there were significant delays with the completion of tasks related to financial reporting. The Department did not perform reconciliations from subledgers to the general ledger throughout the year, or at year-end to ensure that FSF general ledger was complete and accurate. The FSF system balance sheet functionality was not utilized during the year to assist in preparing financial reporting schedules. Instead the same methodology was used as in prior year's which included rolling forward revenue and expense transactions to prepare the financial statements. As a result, the Department had difficulty reconciling cash at year-end due to lack of understanding of FSF and not performing routine reconciliations.

Furthermore, there is still significant reliance on one key individual and dependence on timely communication between State agencies.

Criteria

According to the National Council on Government Accounting (NCGA) Concept Statement No. 1, *Objectives of Financial Reporting,* "The overall goal of accounting and financial reporting for governmental units is to provide: 1) financial information useful for making economic, political and social decisions, and demonstrating accountability and stewardship; and 2) information useful for evaluating managerial and organizational performance."

In order to ensure such information is useful in decision-making and evaluating managerial and organizational performance, as well as demonstrating accountability and stewardship, controls must be

properly designed, in place, and operating effectively to ensure that the State's accounting and financial information is fairly stated in accordance with GAAP and that the State's assets are appropriately safe-guarded.

Cause

The First State Financials (FSF) accounting system is a cash-basis financial management system that has the ability and the flexibility to accommodate modified and full accrual accounting. However, the State of Delaware is not utilizing the functionality available to accommodate the modified and full accrual accounting. Additionally, it is difficult to obtain ad-hoc reports for financial reporting and analysis. The system does not easily identify, by fund, what cash balances are held by the Treasurer's office. As a result, reports utilized from FSF require significant manual manipulation through spreadsheets to develop the trial balances and related financial statements.

Effect

Due to the manual processes used to compile financial statement information and the reliance on the audit process to detect and correct such errors, material misstatements to the financial statements could go undetected.

Recommendation

We recommend that the Department develop, for the 2012 audit cycle, the following:

- A monthly closing process and timetable including account reconciliations and resolution of identified reconciling items that is completed within 3 weeks after each month end
- A detailed list of balances (other than those in the Transportation Trust Fund) and what detailed reports, supporting schedules, and other documentation are needed to support the compilation of financial statements and disclosures related to those balances
- A specific timetable of when each of the detailed reports, supporting schedules, and other documentation will be completed
- Interim review process to evaluate data before year end to identify any issues and correct them before year end close, including communicating with other State agencies with whom the Department may have transactions that require additional accounting considerations
- A periodic monitoring process to ensure adherence to the timetable

We further recommend that the Department consider whether the current level of staffing is appropriate to:

- Disperse responsibility for specific reports, schedules and documentation to others within the accounting function
- Provide for an independent review of information for completeness, accuracy and conformity with generally accepted accounting principles prior to its receipt by the compilation contractor
- Review data throughout the year for completeness and accuracy

Views of Responsible Officials

Management agrees that, with the implementation of the new state-wide financial system, numerous unforeseen issues have presented themselves and we are working diligently to resolve them and implement changes which should improve the reporting process, specifically:

1. Management has implemented monthly account reconciliations and resolution processes.
2. DelDOT is reaching out to the State Division of Accounting (DOA) to discuss potential modifications to the existing First State Financials (FSF) reporting capabilities to better meet DelDOT needs.
3. Once the DOA and DelDOT have agreed on specific reports, they would be available to DelDOT personnel on a regular monthly basis.
4. DelDOT will make periodic interim reviews of accounting data to detect and correct errors before the end of the fiscal year.
5. DelDOT will make every effort to adhere to timetables established for monitoring of accounting data.
6. DelDOT is launching a new effort to cross train personnel that are associated with the accounting and audit processes and to distribute some of the responsibilities to others.
7. DelDOT will continue to monitor and review accounting data for completeness and accuracy as it relates to the compilation and audit of our financial information.

2011-04. Accounting for Investments

Background/Condition

It is the State's policy to present its investments, net of any payables for securities purchased, receivables for any securities sold, and accrued interest. As the criteria allowing the right of setoff (as outlined in the *Criteria* section below) was not met for these transactions, we noted that the State inappropriately netted $25.1 million of receivables for securities sold, $7.5 million of accrued interest, and $87.1 million of payables for securities purchased against the investment balance at June 30, 2011. These amounts were subsequently adjusted in the financial statements.

Additionally, the State does not record all of the reconciling items noted on the cash reconciliation prepared by the Office of the State Treasurer. This resulted in an understatement of investments of approximately $6.0 million.

Lastly, we noted two (2) errors when auditing the cash and investment reconciliation as follows:

- The reconciliation recorded a mark-to-market adjustment for investments; however, the investment balance was already carried forward from the trustee statements at market value, resulting in an overstatement of investments of approximately $2.1 million;
- The investment bank balance listed on the reconciliation was overstated by approximately $1.5 million as it did not agree to the trustee-confirmed amount.

Criteria

Per Accounting Principles Board (APB) Opinion 10, paragraph 7(1), "it is a general principle of accounting that the offsetting of assets and liabilities on the balance sheet is improper except when a right of setoff exists." It further states that "A right of setoff is a debtor's legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying against the debt and amount that the other party owes to the debtor. A right of setoff exists when all of the following conditions are met: a) each of the two parties owes the other determinable amounts, b) the reporting party has the right to set off the amount owed with the amount owed by the other party, c) the reporting party intends set off, and d) the right of set off is enforceable at law."

In addition, in order to ensure financial information is useful in decision-making and evaluating managerial and organizational performance, as well as demonstrating accountability and stewardship, controls must be in place and operating effectively to ensure that the State's accounting and financial information is fairly stated in accordance with GAAP.

Cause

These misstatements were caused by the State's non-GAAP policy to net investment related receivables and payable against the investment balance reported on the face of the financial statements. In addition, due to the manual processes used to compile financial statement information and the reliance on the audit process to detect and correct such errors, material misstatements to the financial statements could go undetected.

Effect

This resulted in investments, receivables for securities sold, accrued interest and payables for securities purchased being understated in the financial statements for the general, local school district, and capital projects funds.

Recommendations

We recommend that the DOA re-evaluate its policy for netting such transactions to ensure that the financial statements are properly prepared in accordance with GAAP. We also recommend that DOA's financial statement review process include an evaluation of the reasonableness of individual financial statement line items by an individual with sufficient accounting and financial reporting experience and knowledge of the processes at each agency to detect and correct material inconsistencies and errors.

Views of Responsible Officials

It has long been the State's policy not to record Investment receivables and payables associated with the sale and purchase of financial instruments held within the State's investment portfolio. Investment receivable and payable balances typically exist in GAAP financial statements due to recognition principles associated with investment trade and settlement dates. Given that settlement and trade dates can vary by several days, recognition principles prescribe that such transactions be accrued for, until the process is completed. The State understands these principles and plans to accrue for such transactions in the future. However, we do not believe that the netting the balances materially misstates the financial statement due to the liquid nature of the transactions in question.

DOA will also continue to monitor reconciliations performed through the State to ensure that organizations are reviewing at the appropriate level of expertise within their organizations.

2011-05. Non-Compliance with the State's Procurement Regulations

Background/Condition

During our audit of procurement and the competitive bidding process, we selected five (5) contracts awarded by the Department of Insurance (DOI) with related expenditures of approximately $11.0 million from a total of approximately $15.6 million during fiscal year 2011. For three (3) of these contract awards, we noted that DOI did not properly comply with the State's policies and procedures as follows:

- DOI was unable to provide supporting documentation for the proper advertisement of the Request for Proposal or bid packages from other bidders for examination administration services awarded. As such, we could not verify whether proper bidding procedures were followed. The amount of expenditures during fiscal year 2011 pursuant to the award was $9.2 million.
- DOI was unable to provide supporting documentation of the bid process for services related to market conduct examinations of foreign companies doing business in the State, except for a copy of the service agreement. Based on discussions with DOI, this procurement did not go through bid process. However, this service is subject to bidding law of the State according to Delaware Code. The amount of expenditures during fiscal year 2011 pursuant to the award was $225 thousand.
- DOI was unable to provide supporting documentation for services related to the evaluation of captive insurance companies to support the bid process, except for a copy of the contract, which was not in the proper contract template. The amount of expenditures during fiscal year 2011 pursuant to the award was $876 thousand.

Criteria

Procurement of materials and services, including professional services, are required to follow a formal bid process if the yearly cumulative amount meets the thresholds set by Delaware Law (29 Del. C. Chapter 69)., unless there is an exemption to Bid Laws. Documentation regarding the history of procurement is required to be maintained by agencies.

Cause

Controls are not in place and operating effectively to ensure that DOI is adhering to the required procurement procedures set forth in the Budget and Accounting Policy Manual (Chapter 5 – Procurement) as well as State law (29 Del. C. Chapter 69).

Effect

This resulted in violation of the procurement laws of the State (29 Del. C. Chapter 69), which could result in appointments based on favor rather than merit.

Recommendations

We recommend that DOI management implement internal controls and policies and procedures to ensure that the requirements of State policies and laws are followed in the bidding and selection of vendors for all contractual services.

Views of Responsible Officials

In the Department's history, contracts were signed that were not formatted using the state's template. Recognizing this, the Department has been working to improve internal processes and have since developed internal written procedures on the RFP process. All contracts are currently being reviewed by a team within the Department (including but not limited to; Controller, DAG, and Chief of Staff) to prioritize the contracts needing to go through the RFP procedure. This will ensure proper contract format as well as supporting documentation for the bid process.

2011-06. First State Financials (FSF) User Access

Background/Condition

Within the FSF application, there is a generic PeopleSoft® database administrator (PSDBA) user identification (ID) with access to perform administrative functions and process business transactions and multiple Department of Technology and Information (DTI) Database Administrators (DBAs) share this PSDBA user ID.

Although the DBAs require certain access to support the FSF application, the access to perform user access provisioning and to process and approve business transactions, are outside their related job responsibilities. In addition, the FSF system logging mechanism was not enabled in order to monitor the actions performed by the PSDBA user ID.

Criteria

The State of Delaware Information Security Policy (Doc Ref #: SE-ESP-001) states that all data users must have unique user access credentials and the sharing of access credentials is prohibited. In addition, no person shall be responsible for completing a task from beginning to end if that task involves critical information; for example, the creation and approval of a business transaction.

Cause

Due to system issues, such as batch job failures, system access to both the FSF application and FSF database was given to the DBAs in order for them to support the application. In addition, due to the complex nature of the FSF application, the DBAs may have unintentionally been given access to functions that are not commiserating with their job responsibilities.

Effect

With administrative access to both the FSF application and the FSF database, the DBAs could potentially grant or modify their access, perform unauthorized business transactions, and avoid detection by erasing the history log. In addition, when a generic user ID is employed, there are no means to identify who is accountable for actions performed in the system. As a result, it is not possible for management to rely on system controls to prevent unauthorized transactions.

Recommendations

We recommend that the FSF team review the DBAs' access to the FSF system and remove any access that is deemed excessive for their respective job responsibilities. The FSF team should consider creating a separate ID for each DBA to provide accountability over functions performed in the system.

The FSF team should consider enabling the FSF system logging mechanism to capture actions performed by super user IDs and/or sensitive actions such as updating of journal entries or approval of invoices over a certain amount. Management should review the event logs on a periodic basis to detect any unauthorized or unintended actions.

Views of Responsible Officials

The State has shared our list of reconciliations and other detective manual controls with the auditors. These controls effectively mitigate the risk that potential financial reporting material misstatements, caused by intentional or unintentional changes to the accounting system, would go undetected by management. The

State will also implement the following control activities to further ensure that the PSDBA role is appropriately monitored.

- The PSDBA role will be cloned and assigned to each of the DBA's userid.
- The generic PSDBA userid will be locked.
- Field level audit will be turned on in the security tables.
- A query will be developed and run on a monthly basis. DTI staff (not the DBAs) will run the query and monitor what has been changed/updated in the system.
- The query and review results will be shared with DOA and the Office of Management and Budget (OMB).
- If it is determined that the DBA has violated their security, the "DTI Security Violation Procedures" will be followed.

Items to Note:

DTI policy requires that a Help Desk ticket be opened before the DBA makes any adjustments to the system. The report should technically tie to the DBA tickets for Enterprise Resource Planning (ERP).

SCHEDULE OF FINDINGS & QUESTIONED COSTS

Section 3: Federal Awards Findings and Questioned Costs

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Section 3: Federal Awards Findings and Questioned Costs

Year ended June 30, 2011

This section identifies significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, as required to be reported by *Office of Management and Budget Circular A-133,* Section .510(a). This section is organized by state agency.

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Delaware Technical and Community College
Terry Campus
Reference Number: 11-DTCC-01
Program: Student Financial Assistance Cluster (84.007, 84.033, 84.063, 84.268)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Borrower Data Transmission and Reconciliation (Direct Loans)

Condition:

In connection with our testwork over Direct Loan program, we noted that Terry campus had not been consistently performing and documenting monthly reconciliations for the campus' Direct Loan information based upon the School Account Statements (SAS) received from Direct Loan Servicing System (DLSS) during the year ended June 30, 2011.

Criteria:

Institutions must report all loan disbursements and submit required records to the DLSS via the Common Origination and Disbursement (COD) within 30 days of disbursement (*OMB No. 1845-0021*). Each month, the COD provides institutions with an SAS data file which consists of a Cash Summary, Cash Detail, and Loan Detail records. The school is required to reconcile these files to the institution's financial records. Since up to three Direct Loan program years may be open at any given time, schools may receive three SAS data files each month (34 CFR sections 685.102(b), 685.301, and 303).

Cause:

This is the first year of Direct Loan program and the campus was not consistently performing a monthly reconciliation of the SAS data file to the campus' records to ensure all Direct Loan information had been properly recorded.

Effect:

While we tested a sample of 40 Direct Loans disbursement amounts between the SAS date file and the campus' records without any exceptions, the required monthly reconciliation would ensure all Direct Loan amounts had been properly recorded.

Questioned Costs:

There are no known questioned costs associated with this finding.

Recommendation:

We recommend that the College implement a process to ensure the SAS data file is being reconciled on a monthly basis and ensure that evidence of those reconciliations is maintained.

Views of Responsible Officials:

Agency Contact Name: Jennifer Grunden, Terry Campus, Student Financial Aid Officer

Agency Contact Phone Number: (302) 857-1042

Corrective Action Plan:

After investigating why one of the two monthly SAS 2011-12/2012-13 files was not received by Delaware Technical Community College's Terry Campus, campus financial aid office staff worked with the Common Origination and Disbursement (COD) office to ensure an electronic COD "adhoc" report was obtained. It has been determined that the yearly rollover of data from 2011-12 to 2012-13 had already take place when the 2011-12 reporting parameters were updated so therefore the rollover reporting parameters were not correct. The missing monthly file was named "DSLF". This "adhoc" report along with the existing records/files from COD will enable Terry Campus to complete performance and maintain evidence of monthly SAS reconciliations.

The campus is on schedule to receive both monthly files from COD effective April 2012. The Terry Campus Financial Aid Officer is currently training/working with other Delaware Tech campus locations' financial aid staff to complete and/or document year-to-date reconciliations for 2012-13 while establishing best practices. With the April 2012 files from COD, the campus Financial Aid Officer will develop an evidence-based monthly reconciliation process. The campus Financial Aid Officer will be performing the monthly SAS reconciliations the week after the files are received from COD. Both electronic and paper SAS records/reconciliations will be retained to provide evidence that reconciliations are performed monthly.

Anticipated Completion Date: Immediately upon receipt of April 2012 COD reports.

Department of Education
Brandywine School District
Christina School District
Delmar School District
Red Clay Consolidated School District
Smyrna School District
Woodbridge School District
Reference Number: 11-ED-01*
Program: **Title I Grants to Local Educational Agencies (84.010, S-84.389)**
Improving Teacher Quality State Grants (84.367)
Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
State Fiscal Stabilization Fund, Race-to-the-Top Incentive Grants, Recovery Act (S-84.395)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Condition:

Department of Education

Based on a sample of 20 payroll expenditures totaling $60,001, four employees totaling $4,983 charged to the Improving Teacher Quality program, four employees totaling $4,375 charged to the Special Education program, and twelve employees totaling $50,643 charged to the Race To The Top program were missing time and effort reports. Total salaries and benefits charged by the Department of Education to major federal programs amounted to $110,000.

Brandywine School District

Based on a sample of 26 payroll expenditures totaling $54,020, five employees totaling $8,819 charged to the Title I program, five employees totaling $9,794 charged to the Improving Teacher Quality program, five employees totaling $5,782 charged to the Special Education program, and six employees totaling $22,364 charged to the Race To The Top program were missing time and effort reports. Total salaries and benefits charged by Brandywine School District to major federal programs amounted to $308,000.

Christina School District

Based on a sample of 23 payroll expenditures totaling $30,805, two employees totaling $6,381 charged to the Improving Teacher Quality program, one employee totaling $742 charged to the Special Education program, and one employee totaling $2,423 charged to the Race To The Top program were missing time and effort reports. Total salaries and benefits charged by Christina School District to major federal programs amounted to $401,000.

Delmar School District

Based on a sample of 22 payroll expenditures totaling $7,567, two employees totaling $461 charged to the Title I program were missing time and effort reports. The time and effort report for one employee totaling $716 charged to the Special Education program percentage did not agree to the actual amount charged. Per the time and effort report, 20% of the employee's time should have been charged to the Special Education

* Repeat finding from prior year's audit

program, however, 80% was charged, resulting in an overcharge of $537. The time and effort report for one employee totaling $835 charged to the Title I program was signed prior to distribution of the actual activity. Total salaries and benefits charged by Delmar School District to major federal programs amounted to $24,000.

Red Clay Consolidated School District

Based on a sample of 25 payroll expenditures totaling $49,573, three employees totaling $8,719 charged to the Special Education program were missing time and effort reports. The time and effort reports for two employees totaling $4,265 charged to the Improving Teacher Quality program percentages did not agree to the actual amounts charged. For one employee, per the time and effort report, 50% of the employee's time should have been charged to the Improving Teacher Quality program; however, approximately 35% was charged, resulting in an undercharge of $438. For the other employee, per the time and effort report, 80% of the employee's time should have been charged to the Improving Teacher Quality program, however, approximately 62% was charged, resulting in an undercharge of $968. Total salaries and benefits charged by Red Clay Consolidated School District to major federal programs amounted to $600,000.

Smyrna School District

Based on a sample of 20 payroll expenditures totaling $17,201, one employee totaling $58 charged to the Special Education program was missing a time and effort report. Total salaries and benefits charged by Smyrna School District to the Special Education program amounted to $151,000.

Woodbridge School District

Based on a sample of 19 payroll expenditures totaling $15,572, three employees totaling $5,016 charged to the Improving Teacher Quality program, three employees totaling $2,217 charged to the Special Education program, and four employees totaling $2,981 charged to the Race To The Top program were missing time and effort reports. The time and effort report for one employee totaling $95 charged to the Title I program percentage did not agree to the actual amount charged. Per the time and effort report, 10% of the employee's time should have been charged to the Title I program, however, approximately 9% was charged, resulting in an undercharge of $16. The time and effort reports for two employees totaling $2,830 charged to the Title I program were annual reports, not semi-annual certifications. Total salaries and benefits charged by Woodbridge School District to major federal programs amounted to $88,000.

Criteria:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)

Cause:

The State Department of Education and the school districts cited above did not maintain proper and timely effort reporting for employees that were partially funded by federal programs, did not obtain semi-annual certifications for employees charged 100% to federal programs, completed time and effort reports before distribution of actual activity, or based their charges to federal programs on estimates and not actual time and effort.

Effect:

Salary and related costs allocated to the federal programs are not appropriately supported by semi-annual certifications or properly prepared time and effort reports.

Questioned Costs:

Known questioned costs amounted to a $16 undercharge to the Title I program, a $1,406 undercharge to the Improving Teacher Quality program, and a $537 overcharge to the Special Education program. The following charges were missing time and effort reports: $9,350 for the Title I program, $26,174 for the Improving Teacher Quality program, $21,893 for the Special Education program, and $78,411 for the Race-to-the-Top program. A charge of $835 for the Title I program was based on a time and effort report completed before distribution of actual activity. In addition, a charge of $2,830 for the Title I program was based on an annual time and effort reports, not semi-annual certifications.

Recommendation:

We recommend that the State Department of Education and the above school districts maintain properly prepared and signed personnel activity reports (effort reports) for all employees who work on multiple programs or obtain semi-annual certifications for employees that have been solely engaged in activities supported by one funding source.

Views of Responsible Officials:

Agency Contact Name: Theresa Vendrzyk Kough / Emily Falcon

Agency Contact Phone Number: (302) 857-3390 / (302) 735-4040

Corrective Action Plan:

Desk Audit Checklist was created which incorporates Time and Effort reporting. All LEAs (Local Educational Agencies) will be checked for compliance. The DOE Financial Reform Resources will also institute updated procedures to ensure that all DOE staff are completing Time and Effort reporting as appropriate. Additional guidance will be issued to LEAs to ensure that they understand the requirements for compliance.

Anticipated Completion Date: October 2012

Smyrna School District
Reference Number: 11-ED-02*
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
Type of Finding: Significant Deficiency
Compliance Requirement(s): Allowable Costs (Indirect Costs)

Condition:

Based on a sample of twenty four indirect cost transactions, one indirect charge by the Smyrna school district for the Special Education program of $50,166 was based on a prior year indirect cost rate rather than the current year's indirect cost rate. The actual indirect cost charged was actually lower than the amount that may have been charged for that period.

Criteria:

To be allowable under Federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C.1):

a. Be necessary and reasonable for the performance and administration of Federal awards. (Refer to A-87, Attachment A, paragraph C.2 for additional information on reasonableness of costs.)

b. Be allocable to Federal awards under the provisions of A-87. (Refer to A-87, Attachment A, paragraph C.3 for additional information on allocable costs.)

c. Be authorized or not prohibited under State or local laws or regulations.

d. Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

e. Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.

f. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

g. Be determined in accordance with generally accepted accounting principles, except as otherwise provided in A-87.

h. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal award, except as specifically provided by Federal law or regulation.

i. Be net of all applicable credits. (Refer to A-87, Attachment A, paragraph C.4 for additional information on applicable credits.)

j. Be adequately documented.

* Repeat finding from prior year's audit

Cause:

Due to a lack of adequate management review, costs charged to the federal programs were based on a prior year indirect cost rate instead of the indirect cost rate for the current year.

Effect:

The indirect costs charged were not based on the current period's approved indirect cost rate.

Questioned Costs:

There are no questioned costs for this finding since the indirect costs being charged were understated.

Recommendation:

We recommend that the school district implement policies and procedures to ensure that indirect costs are based upon actual costs incurred for the fiscal year and the current indirect cost rate and ensure that appropriate supporting documentation is maintained for such costs.

Views of Responsible Officials:

Agency Contact Name: Jerry Gallagher

Agency Contact Phone Number: (302) 659-4312

Corrective Action Plan:

The district will modify its past practice and will draw down indirect costs at the end of each fiscal year using expenses incurred and the indirect cost rate approved for that year.

Anticipated Completion Date: Immediately.

Department of Education
Reference Number: 11-ED-03
Program: **Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)**
Child and Adult Care Food Program (10.558)
Title I Grants to Local Educational Agencies (84.010, S-84.389)
Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
Improving Teacher Quality State Grants (84.367)
State Fiscal Stabilization Fund Cluster (S-84.394)
State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants, Recovery Act (S-84.395)
Type of Finding: Scope Limitation, Material Weakness
Compliance Requirement(s): Cash Management

Condition:

The Department of Education's draw down information could not be directly traced back to First State Financials (FSF), the State's general ledger. While spreadsheet files of the original draw down queries were maintained by DOE as supporting documentation for the federal draw downs selected for audit test work, the information on these files could not readily be traced back to FSF.

We were unable to determine whether the federal cash draws were in compliance with applicable funding techniques or Subpart B requirements because we could not validate the information used to perform the draws. In particular, we noted that a drawdown of $7,239,517 was made in December 2010 for the Race-to-the-Top Incentive Grants, but the program's expenditures through the November 30, 2010 only amounted to approximately $2,100,000.

Criteria:

U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 *et seq.),* require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures of Treasury Subpart B of 31 CFR part 205 (Subpart B).

We noted that of the major federal programs identified above, all but the State Fiscal Stabilization Fund Cluster and the State Fiscal Stabilization Fund Race-to-the-Top Incentive Grants are subject to the CMIA. Those two federal programs are required to be in compliance with Subpart B cash draw down procedures.

Cause:

DOE utilizes a system query to obtain the required information; however, we were unable to trace the original query results per the spreadsheet files back to FSF.

Effect:

We were unable to determine whether the DoE's drawdowns for the federal programs cited above were in accordance with their applicable compliance requirements, either the CMIA or the Treasury's Subpart B since we were unable to reconcile the drawdown to FSF and verify when the expenditure was recorded.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that DOE enhance its federal draw down process to ensure there is an adequate level of support for determining that drawdowns are in accordance with each programs compliance requirements. The support may include illustrating how the drawdown information can be traced to FSF.

Views of Responsible Officials:

Agency Contact Name: Emily Falcon/Eulinda DiPietro

Agency Contact Phone Number: (302) 735-4040

Corrective Action Plan:

The DOE is in the process of revising its procedures for managing federal draws. These procedures will clearly outline the process to ensure that proper documentation is maintained and will also incorporate more oversight to ensure compliance with the new procedures.

Anticipated Completion Date: June 30, 2012

Department of Education
School Districts
Reference Number: 11-ED-04*
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
Improving Teacher Quality State Grants (84.367)
Type of Finding: Significant Deficiency
Compliance Requirement(s): Level of Effort (Maintenance of Effort)

Condition:

Based on a review of the maintenance of effort (MOE) calculations done for the overall federal programs by the eight school districts we visited, we noted the following items:

- The MOE calculation included in the LEA Consolidated Grant Application for the Brandywine, Colonial and NCC Vo-Tech School Districts included 2008 and 2007 financial information instead of 2009 and 2008 financial information.
- The MOE calculation for the Woodbridge School District was excluded from its LEA Consolidated Grant Application.

Criteria:

A Local Educational Agency (LEA) may receive funds under an applicable program only if the State Educational Agency (SEA) finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from State and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waived by U.S. Department of Education.

An LEA's expenditures from State and local funds for free public education include expenditures for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities. They do not include the following expenditures: (a) any expenditures for community services, capital outlay, debt service and supplementary expenses as a result of a Presidentially declared disaster and (b) any expenditures made from funds provided by the Federal government.

If an LEA fails to maintain fiscal effort, the SEA must reduce the amount of the allocation of funds under an applicable program in any fiscal year in the exact proportion by which the LEA fails to maintain effort by falling below 90 percent of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the LEA) (Section 9521 of ESEA (20 USC 7901); 34 CFR section 299.5).

Cause:

The State Department of Education or school districts have not developed procedures to ensure the pre-populated data incorporated into the LEAs MOE calculation is accurate.

* Repeat finding from prior year's audit

Effect:

Based on recalculations, the items noted above did not have an impact on the school districts meeting their MOE requirements; however, if such calculations are not monitored closely any shortfalls may not be identified and addressed on a timely basis.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that the Delaware Department of Education reinforce how the MOE template should be completed and develop procedures to ensure that the school districts' MOE calculations have been completed accurately.

Views of Responsible Officials:

Agency Contact Name: Emily Falcon/ Theresa Vendrzyk Kough

Agency Contact Phone Number: (302) 735-4040 / (302) 857-3390

Corrective Action Plan:

The MOE calculations have been automated to ensure accuracy. All data is now pre-populated from the DOE data warehouse. LEAs must coordinate with DOE to make changes to the data as calculated. DOE Financial Reform Resources staff will ensure that the MOE calculations that are included within the Consolidated Grant Applications are being pulled for the proper fiscal years.

Anticipated Completion Date: July 2011

Department of Education
Reference Number: 11-ED-05*
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
Improving Teacher Quality State Grants (84.367)
Type of Finding: Significant Deficiency
Compliance Requirement(s): Reporting

Condition:

In connection with our review of the Delaware Department of Education's (DOE) compliance requirements applicable to its reporting to the ED, we performed a review of the DOE's information technology (IT) general controls over the eSchoolPlus systems and the Delaware Student Information System (DELSIS).

Based on our review, we noted that in connection with the Department's *Change Management – Limited System Development Lifecycle Procedure Guidance*, the DOE IT department implements internally developed applications and purchased software applications without aid of an approved policy or procedures for project management.

Criteria:

The U.S. Department of Education (ED) requires that the State Educational Agency (SEA) file various reports related to its oversight and compliance over the federal funds it receives from the ED. The following reports are required by the ED:

State Per Pupil Expenditure (SPPE) Data – Each year, a SEA must submit its average State per pupil expenditure (SPPE) data to the National Center for Education Statistics. These SPPE data are used by the ED to make allocations under several Elementary and Secondary Education Act of 1965 (ESEA) programs, including Title I, Part A.

Report of Children and Youth with Disabilities Receiving Special Education Under Part B of the Individuals with Disabilities Act, as amended – Each SEA is required to report to the Secretary an unduplicated count of children with disabilities receiving special education and related services.

A SEA must annually review the progress of each Local Educational Agency (LEA) that receives funds under subpart 2 of Part A of Title I to determine whether the LEA made adequate yearly progress as defined by the State. Each SEA must report annually to the Secretary, and make certain information widely available within the State. In addition, the SEA must prepare and disseminate an annual State report card that contains, among other things, information on the performance of LEAs regarding adequate yearly progress. The SEA must ensure that each LEA collects the data necessary to prepare its annual report card.

Cause:

The DOE IT department had not formalized policies and procedures regarding internally developed or purchased software until the last quarter of fiscal year 2011.

* Repeat finding from prior year's audit

Effect:

The lack of formal policies and procedures regarding Change Management could result in future problems over data integrity.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

As recommended in the prior year, the DOE IT department developed and implemented formal policies and procedures to address Change Management.

Views of Responsible Officials:

Agency Contact Name: Robert E. Czeizinger

Agency Contact Phone Number: (302) 735-4140

Corrective Action Plan:

Change Management – Limited System Development Lifecycle Procedure Guidance - The leadership of the Technology Resources and Data Development Group developed a written policy designed to strengthen our guidance regarding System Development and Lifecycle Procedures.

Anticipated Completion Date: *Change Management – Limited System Development Lifecycle Procedure Guidance* – April 30, 2011

Department of Education
Reference Number: 11-ED-06
Program: Title I Grants to Local Educational Agencies – ARRA (S-84.389)
Special Education Cluster – ARRA (S-84.391, S-84.392)
State Fiscal Stabilization Fund Cluster (S-84.394)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Special Tests and Provisions (Separate Accountability for ARRA Funding)

Condition:

In connection with our review of the ARRA expenditures for the programs being testing and reconciling such amounts to the Department of Education's general ledger as well as the Federal Recovery Act website, we noted that some of the Department of Education's ARRA funds were incorrectly classified to the wrong CFDA number. For the year ended June 30, 2011, we noted that $8,314,932 and $956,431 originally included in the Title I ARRA CFDA should have been included in the State Fiscal Stabilization Fund Cluster and the Special Education Cluster – ARRA, respectively.

Criteria:

As provided in 2 CFR section 176.210, Federal agencies require recipients to (1) agree to maintain records that identify adequately the source and application of ARRA awards; (2) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, Catalogue of Federal Domestic Assistance (CFDA) number, and the amount of ARRA funds; and (3) provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC.

Cause:

A portion of the ARRA funds were incorrectly classified to the wrong CFDA numbers within FSF.

Effect:

The State's SEFA needs to be adjusted to properly reflect the proper amount of ARRA expenditures to the correct CFDA number.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that the State's SEFA be reconciled back to FSF on an annual basis to ensure all ARRA funds have been properly reflected on the SEFA.

Views of Responsible Officials:

Agency Contact Name: Eulinda DiPietro

Agency Contact Phone Number: (302) 735-4040

Corrective Action Plan:

We will coordinate with the Division of Accounting to obtain the CFDA ARRA amounts that will be included on the SEFA for our programs. We will ensure such amounts are reconciled to the general ledger and communicate any adjustments necessary to make the SEFA accurate.

Anticipated Completion Date: September 30, 2012

Department of Education
Woodbridge School District
Reference Number: 11-ED-07*
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Improving Teacher Quality State Grants (84.367)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Special Test and Provisions (Private School Children)

Condition:

As noted in the prior year, the Woodbridge School District could not provide any evidence that a calculation was performed to ensure Title I, Part A funds could be properly allocated to children from low-income families who attended either public or private schools on the same basis.

Criteria:

For programs funded under Title I, Part A (CFDA 84.010), a Local Educational Agency (LEA), after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families. Eligible private school children are those who reside in a participating public school attendance area and have educational needs under section 1115(b) of ESEA (20 U.S.C. 6315(b)). Title I, Part A funds must be allocated to each participating public school attendance area on the basis of the total number of children from low-income families residing in that area. In calculating the total number of children from low-income families, an LEA must include children from low-income families who attend private schools. An LEA must use the portion of Title I, Part A funds attributable to private school children from low-income families included in the calculation to provide services to eligible private school children. For example, if $100,000 of Title I, Part A funds are allocated based on 100 children from low-income families, 25 of whom are private school children, $25,000 of the $100,000 must be expended to provide equitable services to eligible private school children.

Cause:

School district personnel were not fully aware of the federal requirements to perform a per pupil calculation to ensure federal funds were properly allocated between children from low-income families who attended either public or private schools.

Effect:

There is no proof of an equitable allocation of funds for services between children from low-income families who attend either public or private schools.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the school district personnel be properly trained by the State Department of Education to ensure the districts fulfill the federal requirements pertaining to the participation of services for private school children from low-income families.

* Repeat finding from prior year's audit

Views of Responsible Officials:

Agency Contact Name: Theresa Vendrzyk Kough

Agency Contact Phone Number: (302) 857-3390

Corrective Action Plan:

As part of the United States Department of Education (ED) monitoring process, responses and corrective actions were taken for the requirement of the participation of private school children in federal programs. The ED's Student Achievement and School Accountability (SASA) Office issued a letter in December of 2010 stating that all findings have been resolved.

Anticipated Completion Date: December 2010

Department of Education
Reference Number: 11-ED-08*
Program: Title I Grants to Local Educational Agencies (84.010)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Special Test and Provisions (Title I Monitoring Report)

Condition:

During fiscal year 2010, the U. S. Department of Education's (ED) Student Achievement and School Accountability (SASA) office reviewed the Delaware Department of Education's (DOE) administration of the Title I programs authorized by the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act (NCLB). Based on our review of the monitoring report (Title I Monitoring Report) issued on November 5, 2010, the following findings below were applicable to the compliance requirements applicable to the Title I Grant to Local Educational Agencies as described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* for the year ended June 30, 2011. Based on our review of a letter from the ED SASA office dated December 2010, we noted that the findings had been resolved as of December 2010.

Participation of Private School Children

The Delaware SEA had not ensured that its LEAs met requirements regarding the selection of private school students for participation in the Title I program.

Comparability

The Delaware SEA had not ensured that its LEAs comply with the comparability requirement. The Delaware SEA staff indicated that, since the State has a policy to ensure comparability in staffing, it was only necessary for LEAs to indicate that the State had established policies to ensure equivalence among schools in staffing.

Highly Qualified Paraprofessionals

The Delaware SEA had not ensured that its LEAs complied with the hiring requirements for instructional paraprofessionals working in Title I schools.

Criteria:

Participation of Private School Children

For programs funded under Title I, Part A (CFDA 84.010), a Local Educational Agency (LEA), after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families. Eligible private school children are those who reside in a participating public school attendance area and have educational needs under section 1115(b) of ESEA (20 U.S.C. 6315(b)). Title I, Part A funds must be allocated to each participating public school attendance area on the basis of the total number of children from low-income families residing in that area. In calculating the total number of children from low-income families, an LEA must include children from low-income families who attend private schools. An LEA must use the portion of Title I, Part A funds attributable to private school children from low-income families included in the calculation to provide services to eligible private school children. For example, if $100,000 of Title I, Part A funds are allocated

* Repeat finding from prior year's audit

based on 100 children from low-income families, 25 of whom are private school children, $25,000 of the $100,000 must be expended to provide equitable services to eligible private school children.

If an LEA reserves funds off the top of its Title I, Part A allocation to provide instructional and related activities for public school students at the district level, the LEA must also provide from those funds, as applicable, equitable services to eligible private school students. From applicable funds reserved for parent involvement and professional development, an LEA must ensure that teachers and families of participating private school children have an equitable opportunity to participate in professional development and parent involvement activities, respectively. The amount of funds available to provide these services must be proportionate to the number of private school children from low-income families residing in participating public school attendance areas (Sections 1113(c) and 1120 of ESEA (20 USC 6313(c) and 6320); 34 CFR sections 200.62 through 200.67 and 200.77 through 200.78).

Comparability

An LEA may receive funds under Title I, Part A only if State and local funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving Title I, Part A funds. An LEA is considered to have met the statutory comparability requirements if it filed with the State Educational Agency (SEA) a written assurance that such LEA has implemented (1) an LEA-wide salary schedule; (2) a policy to ensure equivalence among schools in teachers, administrators, and other staff; and (3) a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies. An LEA may also use other measures to determine comparability, such as comparing the average number of students per instructional staff or the average staff salary per student in each school receiving Title I, Part A or MEP funds with those in schools that do not receive Title I, Part A or MEP funds. If all schools are served by Title I, Part A or MEP, an LEA must use State and local funds to provide services that, taken as a whole, are substantially comparable in each school. Determinations may be made on either a district-wide or grade-span basis.

An LEA may exclude schools with fewer than 100 students from its comparability determinations. The comparability requirement does not apply to an LEA that has only one school for each grade span. An LEA may exclude from determinations of compliance with this requirement State and local funds expended for (1) bilingual education for children with limited English proficiency (LEP); and (2) the excess costs of providing services to children with disabilities as determined by the LEA. The LEA may also exclude supplemental State or local funds for programs that meet the intent and purposes of Title I, Part A or MEP (Sections 1120A(c)-(d) and 1304(c)(2) of ESEA (20 USC 6321(c)-(d) and 6394(c)(2)); 34 CFR sections 200.79 and 200.88).

Each LEA must develop procedures for complying with the comparability requirements and implement the procedures annually. The LEA must maintain records that are updated biennially documenting compliance with the comparability requirements. The SEA, however, is ultimately responsible for ensuring that LEAs remain in compliance with the comparability requirement (Section 1120A(c) of ESEA (20 USC 6321(c)).

Highly Qualified Paraprofessionals

Qualifications for paraprofessionals support by Title I, Part A funds are as follows:

a. An LEA must ensure that each paraprofessional who is hired by the LEA after January 8, 2002 and who works in a program supported with Title I, Part A funds meets specific qualification requirements. Paraprofessionals who work in a program supported with Title I, Part A funds and who were hired by an LEA prior to January 8, 2002, had to meet these

requirements by the end of the 2005-2006 school year. The term "paraprofessional" means an individual who provides instructional support; it does not include individuals who have only non-instructional duties (such as providing technical support for computers, providing personal care services, or performing clerical duties). A paraprofessional works in a program supported with Title I, Part A funds if the paraprofessional is paid with Title I, Part A funds in a Title I targeted assistance school or works as a paraprofessional in a schoolwide program school.

b. A paraprofessional must hold a high-school diploma or its recognized equivalent and meet one of the following requirements:
   (1) Have completed at least two years of study at an institution of higher education.
   (2) Have obtained an associate's or higher degree.
   (3) Have met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, reading/language arts, writing, and mathematics, or reading readiness, writing readiness, and mathematics readiness.

c. A paraprofessional who is proficient in English and a language other than English and acts as a translator or who has duties that consist solely of conducting parental involvement activities need only have a high-school diploma or its recognized equivalent.

(Title I, Section 1119(c)-(f) of ESEA (20 USC 6319(c)-(f)); 34 CFR section 200.58)

Cause:

The DOE failed to ensure full compliance with the above special tests and provisions for the Title I program.

Effect:

Based on the Title I Monitoring Report, the DOE was not fully compliant with the special tests and provisions required by the OMB Circular A-133 during the entire year ended June 30, 2011.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

The DOE implemented corrective action during the fiscal year ended June 30, 2011 and we recommend that DOE continue to monitor the implementation of those corrective action plans for LEAs on a periodic basis.

Views of Responsible Officials:

Agency Contact Name: Theresa Vendrzyk Kough

Agency Contact Phone Number: (302) 857-3390

Corrective Action Plan:

As part of the ED monitoring process, responses and corrective actions were taken in each of the cited areas. ED's SASA office issued a letter in December of 2010 stating that all findings have been resolved.

Anticipated Completion Date: December 2010

Department of Education
Reference Number: 11-ED-09*
Program: Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
Type of Finding: Scope Limitation, Material Weakness
Compliance Requirement(s): Level of Effort (Maintenance of Effort)

Condition:

We were unable to obtain a copy of the State's MOE calculation for the year ended June 30, 2011. In addition, based on a review of the LEA MOE calculations (Excess Cost for IDEA template) included in 2011 LEAs Consolidated Grant Applications for each of the eight school districts selected for testing, we noted that the State Department of Education incorporated a consistent methodology for the calculation of the Special Education's maintenance of effort. However, we were not able to trace the amounts used under the new methodology back to the school districts' annual financial statements or FSF, the State's general ledger.

Criteria:

SEA – LEVEL OF EFFORT

A State may not reduce the amount of State financial support for special education and related services for children with disabilities (or State financial support otherwise made available because of the excess costs of educating those children) below the amount of State financial support provided for the preceding fiscal year. The Secretary reduces the allocation of funds under 20 USC 1411 for any fiscal year following the fiscal year in which the State fails to comply with this requirement by the amount by which the State failed to meet the requirement. If, for any fiscal year, a State fails to meet the State-level maintenance of effort requirement (or is granted a waiver from this requirement), the financial support required of the State in future years for maintenance of effort must be the amount that would have been required in the absence of that failure (or waiver) and not the reduced level of the State's support (20 USC 1412(a)(18); 34 CFR section 300.163).

LEA – LEVEL OF EFFORT

Individual Disability Education Act (IDEA), Part B funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of State and local funds, expended for this purpose by the LEA in the prior fiscal year. Allowances may be made for: (a) the voluntary departure, by retirement or otherwise, or departure for just cause, of special education personnel; (b) a decrease in the enrollment of children with disabilities; (c) the termination of the obligation of the agency, consistent with this part, to provide a program of special education to a particular child with a disability that is an exceptionally costly program, as determined by the State Educational Agency (SEA), because the child has left the jurisdiction of the agency, has reached the age at which the obligation of the agency to provide a free appropriate public education (FAPE) has terminated or no longer needs such program of special education; (d) the

* Repeat finding from prior year's audit

termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities; or (e) the assumption of costs by the high cost fund operated by the SEA under 34 CFR section 300.704 (20 USC 1413(a)(2); 34 CFR sections 300.203 and 300.204).

Cause:

It is our understanding that the State's MOE calculation may have been completed, but the completed MOE calculation could not be located/provided as a result of personnel turnover.

The MoE calculations included within the 2011 LEAs Consolidated Grant Applications were prepopulated for each LEA, but the LEAs were unable to illustrate how those amounts included on the MOE calculations reconciled to FSF.

Effect:

The State or the school districts may not have met their Special Education MOE requirements.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the State MOE calculation for Special Education be stored in a central repository at the State Department of Education to ensure its availability even if personnel turnover occurs.

We also recommend that the DOE ensure that the amounts included within each LEA's MOE calculation can be readily reconciled to FSF for each year provided. In addition, the DOE should ensure any LEA MOE calculations that do not show increases have been properly investigated and supported.

Views of Responsible Officials:

Agency Contact Name: Emily Falcon

Agency Contact Phone Number: (302) 735-4040

Corrective Action Plan:

Procedures will be instituted to ensure that all MOE calculations are maintained in a central repository to insulate them from staff turnover issues. Additionally, DOE has taken steps to automate the MOE calculations for LEAs to ensure consistent and accurate calculations. DOE will provide additional guidance for the LEAs on these calculations to ensure their staff is knowledgeable about the MOE template and can assist in detecting any errors or inconsistencies in the calculations.

Anticipated Completion Date: July 2011

Department of Education
Reference Number: 11-ED-10*
Program: Child and Adult Care Food Program (10.558)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Eligibility (Subrecipients)

Condition:

Based on our review of the applications of thirty subrecipients, we noted the following items:

- The annual applications do not contain all the required components of the performance standards. The standards require that the organizations have documentation supporting 1) the organizations need and recruiting and 2) fiscal resources and financial history. In addition the renewing organization should have documentation of administrative capability, which includes documentation of appropriate and effective management practices as well as criteria that the organization has an adequate number and type of staff to ensure the operation of the Program. Furthermore, renewing organizations should have documentation of fiscal accountability which includes a financial system with management controls in writing and accounting records.

- For twenty seven of the thirty organizations application files, written notification, of approval or disapproval of the application within thirty calendar days of receipt of a complete application could not be observed.

Criteria:

In accordance with the Child and Adult Care Food (CACFP) Program, a State administering agency must follow the following eligibility requirements:

a. Administering agencies may disburse CACFP funds only to those organizations that meet the eligibility requirements stated in the following program requirements: (1) generic requirements for all institutions at 7 CFR section 226.15 and 42 USC 1766(a)(6) and (d)(1); (2) additional requirements for sponsoring organizations at 7 CFR section 226.16; (3) additional requirements for child care centers (whether independent or sponsored) at 7 CFR section 226.17; (4) additional requirements for day care homes (which must be sponsored) at 7 CFR section 226.18; (5) additional requirements for outside-school-hours centers at 7 CFR section 226.19; (6) additional requirements for adult day care centers (whether independent or sponsored) at 7 CFR section 226.19a; (7) additional requirements for at-risk afterschool programs at 7 CFR section 226.17a; and (8) additional requirements for emergency shelters at 42 USC 1766(t).

b. For-profit child care and outside-school-hours care centers may participate in the CACFP if they meet either of the following two criteria: (1) at least 25 percent of the enrolled children or 25 percent of the licensed capacity, whichever is less, are funded under Title XX of the Social Security Act; or (2) at least 25 percent of the children in their care are eligible for free or reduced price meals. Children who participate only in the at-risk afterschool component of the program must not be considered in determining whether the institution met this 25 percent threshold (42 USC 1766(a)(2)(B); 7 CFR section 226.11(c)(4)).

* Repeat finding from prior year's audit

c. For-profit adult day care centers may be eligible for CACFP if at least 25 percent of their participants receive benefits under Title XIX or Title XX of the Social Security Act (7 CFR section 226.2 (definition of "for-profit center")).

Cause:

Standard applications have not been reviewed recently to ensure all federal regulations have been incorporated.

Effect:

The applications do not contain all the components required by federal regulations.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the Delaware Department of Education revise its CACFP applications to ensure all necessary components listed in the Federal regulations are explicitly incorporated.

Views of Responsible Officials:

Agency Contact Name: Linda C. Wolfe, Director, School Support Services

Agency Contact Phone Number: (302) 735-4060

Corrective Action Plan:

The condition regarding the annual applications that do not contain explicit language ensuring that the subrecipients are not ineligible for publicly funded programs was corrected October 2010. The required elements were added to the new nutrition software program application. The Delaware Nutrition Accountability and Reporting System (DENARS) has an online application component that all sponsors are required to complete prior to each fiscal year. The new system was implemented in October 2010 for CACFP.

The condition regarding the annual applications that do not contain all the required components of the performance standards was corrected in October 2010. The required elements were added to the DENARS online application that all sponsors must complete annually. Additionally, these areas are covered in the administrative reviews conducted for all renewing sponsors. All new applicants are required to submit the balance sheet from their most recent audit or 2 months of checking account statements for review. This information is provided at the training. We believe this combination of modifications to forms and processes fully satisfies all issues outlined in this condition.

In response to the condition regarding the outside employment policies, for the past two application approval cycles (2009/10 and 2010/11), the state agency has reviewed all renewing sponsors' file documents to ensure that Outside Employment Policy Statements and all other required documents were in the files. We included these items on the annual file review checklist and have this documentation to support our position that all files contain the required documents

Anticipated Completion Date: Completed in July 1, 2011

Department of Education
Reference Number: 11-ED-11*
Program: Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)
Child and Adult Care Food Program (10.558)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Subrecipient Monitoring

Condition:

Based on our review of the program's subrecipient monitoring, we noted that while the Delaware Department of Education ensures that its applications for both Child Nutrition and Child and Adult Care Food Program include the need for subrecipients expending $500,000 or more in federal awards have an audit, there is no mechanism in place to track whether any such subrecipients have confirmed that need for an OMB Circular A-133 audit and, in turn, whether the DOE should be following up on any audits performed. During the year ended June 30, 2011, the Child Nutrition program provided approximately $2.1 million to subrecipients and the Child and Adult Care Food program provided approximately $12.8 million to subrecipients.

Criteria:

A pass-through entity is responsible for (1) ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions. (OMB Circular A-133 Compliance Supplement, Part 3, Section M)

A pass-through entity is responsible for evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations. (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

Cause:

The DOE has not developed a procedure to ensure it monitors any subrecipients who may be required to meet the audit requirements of OMB Circular A-133 and ensure its on-site visits on its subrecipients meet the required criteria.

Effect:

The DOE does not appear to be fulfilling all of its subrecipient monitoring responsibilities.

Questioned Costs:

Questioned costs are not determinable.

* Repeat finding from prior year's audit

Recommendation:

We recommend that the DOE develop procedures to ensure it adequately tracks and monitors possible audits required for its subrecipients.

Views of Responsible Officials:

Agency Contact Name: Linda C. Wolfe, Director, School Support Services

Agency Contact Phone Number: (302) 735-4060

Corrective Action Plan:

The newly implemented (October 2010) CACFP portion of the DENARS application system addresses the conditions listed above. The application allows the DOE to search any sponsor to determine their compliance with the A-133 audit requirement certification statement. The application system also allows the DOE to track the current status of each sponsor's compliance.

Additionally, DOE Nutrition Programs is currently developing a *program processes* document that will provide guidance on all activities of the program. The first three completed processes relate to A-133, including the responsibility of the agency to collect, review, and monitor audits.

Anticipated Completion Date: Completed in July 1, 2011

Department of Education
Reference Number: 11-ED-12
Program: Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Subrecipient Monitoring (Management Evaluation Report)

Condition:

Based on our review of the Management Evaluation report issued on August 10, 2010 by the Food and Nutrition Service (FNS), we noted that the finding on the Coordinated Review Effort (CRE) performed on the DoE's subrecipients was applicable to the compliance requirements applicable to the Child Nutrition Cluster as described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* for the year ended June 30, 2011. The FNS noted that based on a sample of reviews, the following were disclosed:

- The required forms for several of the reviews evaluated were not completed; specifically, forms SFA-1 and SFA-2 which are designed to determine if review thresholds are exceeded by the SFA, and forms FA 1 and FA 6 which are used to determine fiscal action for program violations.
- Corrective action plans were not submitted and/or were incomplete (DAPI, and Polytech)
- A claim for one sponsor was assessed and payment was collected prior to the completion of the third follow-up review and approval of corrective action. (Family Foundations)
- The guidelines for withholding reimbursement are not properly applied.

Criteria:

The following citations are applicable to the CRE that were performed:

210.18(k) *Corrective Action.* Corrective action is required for any violation under either the critical or general areas of the review. Corrective action shall be applied to all schools in the school food authority, as appropriate, to ensure that previously deficient practices and procedures are revised system-wide.

210.18(k)(2) *Documented corrective action.* Documented corrective action is required for any degree of violation of general or critical areas identified in an administrative review or on any follow-up review. Documented corrective action may be provided at the time of the review; however, it shall be postmarked or submitted to the State agency no later than 30 days from the deadline for completion of each required corrective action, as specified under paragraph (j) of this section or as otherwise extended by the State agency under paragraph (k)(1) of this section.

210.18(l) *Withholding payment.* At a minimum, the State agency shall withhold Program payments to a school food authority as follows: (1) *Cause.* (i) The State agency shall withhold all Program payments to a school food authority if documented corrective action for critical area violation(s) which exceed the review threshold(s) is not provided within the deadlines specified in paragraph (k)(2) of this section; and/or (l)(1)(iv) The State agency may withhold payments at its discretion, if the State agency finds that documented corrective action is not provided within the deadlines specified in paragraph (k)(2) of this section, that corrective action is not complete or that corrective action was not taken as specified in the documented corrective action for a general area violation or for a critical area violation which did not exceed the review threshold. (2) *Duration.* In all cases, Program payments

shall be withheld until such time as corrective action is completed, and documented corrective action is received and deemed acceptable by the State agency or as otherwise specified in paragraph (i)(5) of this section.

Cause:

The DOE is missing certain criteria for its CREs of its subrecipients.

Effect:

The DOE does not appear to be fulfilling all of its subrecipient monitoring responsibilities.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

While in general, the SA has done a good job monitoring local level operations, the SA must strengthen its procedures for administrative reviews to ensure that the issues discussed above are corrected. Since there are only two field staff to accomplish current monitoring activities in addition to other administrative work, a second level review would support this effort. Another alternative is to consider hiring a review coordinator that would assist the field agents in the areas of fiscal action and follow-up reviews.

To ensure corrective action plans are completed within the timeframes specified by your office, the SA should consider adding a column to the tickler file, for both CRE and SMI reviews, to record the date when corrective action plans are due date and when they are received. When a SFA fails to take or respond to corrective action by the deadline and a written extension was not requested, the SA must follow the guidelines for withholding Program payments as outlined in 210.18(l)(1)–(2).

Views of Responsible Officials:

Agency Contact Name: Linda C. Wolfe, Director, School Support Services

Agency Contact Phone Number: (302) 735-4060

Corrective Action Plan:

The State Agency has taken the following actions to address this finding:

I. The SA will continue to support the field agents with their capacity to accomplish the required monitoring activities. We are aware that the review schedule will be changing from a five-year to three-year cycle and we are planning accordingly to meet this requirement.

II. Our administrative review findings procedures have been enhanced by the development of a *tickler file* system. Through the use of tracking forms for CRE and SMI Reviews, we have enhanced our procedures that will ensure that our reviews are consistently followed. These forms are currently on our shared intranet drive to facilitate access by the entire SNP team to track reviews and required follow-up action.

Anticipated Completion Date: Immediately.

Department of Education
Reference Number: 11-ED-13
Program: Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Reporting

Condition:

Based on our review of the four quarterly Financial Status Reports (FSRs) for the Child Nutrition Cluster, we noted that the cumulative fiscal year 2011 outlays on the FSRs amounted to $34,141,296 compared to the general ledger amount for the same period which amounted $35,838,595. The difference of $1,697,229 could not be reconciled.

Criteria:

FNS-777, Financial Status Report (OMB No. 0584-0067) - This report replaces the SF-269 and captures the same information: the State agency's cumulative outlays (expenditures) and unliquidated obligations of Federal funds for the programs and program components that comprise the Child Nutrition Cluster. FNS uses the data captured by this report to monitor State agencies' program costs and cash draws (7 CFR sections 210.20(a)(2), 215.11(c)(2), 220.13(b)(2), and 225.8(b)). Two different versions of this form are made available for use by State agencies: one for reporting on Child Nutrition Program funds, and the other for reporting the status of the State agency's SAE grant. This enables the State agency to separately report on its SAE grant which, unlike the program funds, is a 2-year grant.

Cause:

Because of turnover and miscodings of the amounts expended, the Child Nutrition Cluster cumulative outlays reported on the FSRs did not readily agree to FSF.

Effect:

The amounts reported on the FSR submissions did not reconcile to the FSF and there was no support that reconciled the differences.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that DOE develop procedures to ensure all reports submitted to the Federal Government are reconciled to FSF prior to submission.

Views of Responsible Officials:

Agency Contact Name: Cathy Wolfe

Agency Contact Phone Number: (302) 735-4040

Corrective Action Plan:

Because of the nature of these programs, frequent revisions to expenditures are expected. These items could be from late claim submissions, MRE reviews yielding over or underpayment of sponsors or possibly recodes. In order to ensure that the data used to complete the FSRs is readily available and can be reconciled, our procedures will be updated to require that staff print screen shots of FSF balances and other pertinent data used. This will ensure that the Department can document that the FSRs reconcile with the FSF data.

Anticipated Completion Date: December 31, 2011

Department of Health and Social Services
Division of Management Services
Reference Number: 11-DHSS-01
Program: Supplemental Nutritional Assistance Program Cluster (10.551, 10.561, S-10.561)
Temporary Assistance for Needy Families (93.558, S-93.714)
Child Care Cluster (93.596, 93.575, S-93.713)
State Children's Health Insurance Program (93.767)
Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)
Child Support Enforcement (93.563, S-93.563)
Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)
Low-Income Home Energy Assistance Program (93.568)
Immunization Cluster (93.268, S-93.712)
Type of Finding: Scope Limitation, Material Weakness
Compliance Requirement(s): Cash Management

Condition:

The Division of Management Services (DMS) utilizes a system query to download pending Accounts Receivable information from the State's general ledger, First State Financials (FSF), into a spreadsheet program. The spreadsheet program is then manually sorted, adjusted and linked to another external spreadsheet in order to calculate the amounts ready to be drawn down for each federal program.

There is a lack of segregation of duties within DMS' federal draw down process, as the same DMS staff is responsible for executing the query, importing the query results into the spreadsheet, modifying the spreadsheet in order to calculate the draw amounts, performing the cash draw downs, and reconciling the subsequent cash receipts to the Accounts Receivable information in FSF.

In addition, the draw down information could not be directly traced back to FSF because the FSF system does not have the ability to be queried as to historical balances, and only the adjusted spreadsheet files, rather than the original system query results, were maintained by DMS as supporting documentation for the federal draw downs selected for audit test work.

We were unable to determine whether the federal cash draws were in compliance with applicable funding techniques or Subpart B requirements because we could not validate the information used to perform the draws.

Criteria:

U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 et seq.), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures by prescribed in Treasury in Subpart B of 31 CFR part 205 (Subpart B).

We note that of the major federal programs identified above, all but the Capitalization Grants for Drinking Water State Revolving Funds and Immunization Cluster are subject to the CMIA. These 2 federal programs are required to be in compliance with Subpart B cash draw down procedures.

Cause:

DMS utilizes a system query to obtain the required information from the State's accounting system due to the large volume of grants being drawn down by the Department; however, the original query results were not maintained.

Due to staffing shortages, DMS was unable to establish an adequate segregation of duties over the cash management function.

Effect:

Without a management review control in place, DMS may request funds in a manner which is not in compliance with the CMIA, Subpart B, or the terms of the grant agreements.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that DMS enhance its federal draw down procedures to ensure there is an adequate level of supervisory review of the cash draws prior to submission to the federal agencies and to ensure proper segregation of duties over the cash management function.

We also recommend that DMS maintains the original FSF query results that correspond to each draw down either in hardcopy or in a non-alterable electronic format so that the draw down information can be validated.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

Archived copies of original FSF queries:

On 10/28/11, when KPMG pointed out that archived copies of the original FSF query results were not maintained, DHSS began archiving copies of the original query results (as recommended).

Supervisory review of cash draws prior to submission:

When the FSF download is sorted to calculate amounts to be drawn for each Federal program, a hard copy is printed out and then used to enter the amounts to be drawn into the Federal systems.

Starting on 2/8/12, DHSS instituted the following practice. After printing out the hard copy of the amounts to be drawn (and prior to the draws being entered into the Federal systems), (1) the Grants unit supervisor or designee will be given the hard copy document, (2) examine the amounts to be drawn and (3) sign the hard copy to document their review/approval.

Anticipated Completion Date: October 28, 2011 and February 8, 2012

Department of Health and Social Services
Division of Management Services
Reference Number: 11-DHSS-02
Program: Temporary Assistance for Needy Families (93.558, S-93.714)
Child Care Cluster (93.596, 93.575, S-93.713)
State Children's Health Insurance Program (93.767)
Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)
Child Support Enforcement (93.563), S-93.563)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Special Tests and Provisions (ADP Risk Analysis and System Security Review)

Condition:

At least biennially, DHSS must review their ADP system security of installations involved in the administration of HHS programs. DHSS has provided us with a SOC 1 report for the MMIS system but it cannot be used as evidence of risk analysis and security review. According to the American Institute of CPAs (AICPA), SOC 1 reports cover controls at service organizations relevant to user entities' internal controls over financial reporting and the nature of its scope is not technically sufficient to completely cover the following components that are required by HHS:

(A) Physical security of ADP resources (*Partially covered by the SOC 1 report. The report does not cover any front end systems or back end systems that are not managed by the service organization.);*

(B) Equipment security to protect equipment from theft and unauthorized use (*Partially covered. Similar to A above*);

(C) Software and data security (*Partially covered by SOC 1 report. The report does not appear to cover security at the database level.);*

(D) Telecommunications security (*Not covered*);

(E) Personnel security (*Not covered*);

(F) Contingency plans to meet critical processing needs in the event of short or long-term interruption of service (*Not covered*);

(G) Emergency preparedness; (*Not covered*) and,

(H) Designation of an Agency ADP Security Manager. (*Not covered by the SOC 1 report; however per procedures performed, we note DHSS has an Information Security Officer*).

Criteria:

Per 45 CFR § 95.621 ADP reviews.

(f) ADP System Security Requirements and Review Process—

(1) ADP System Security Requirement. State agencies are responsible for the security of all ADP projects under development, and operational systems involved in the administration of HHS programs. State agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of Federal ADP systems and information processing.

(2) ADP Security Program. State ADP Security requirements shall include the following components:

(i) Determination and implementation of appropriate security requirements as specified in paragraph (f)(1) of this section.

(ii) Establishment of a security plan and, as appropriate, policies and procedures to address the following area of ADP security:

(A) Physical security of ADP resources;

(B) Equipment security to protect equipment from theft and unauthorized use;

(C) Software and data security;

(D) Telecommunications security;

(E) Personnel security;

(F) Contingency plans to meet critical processing needs in the event of short or long-term interruption of service;

(G) Emergency preparedness; and,

(H) Designation of an Agency ADP Security Manager.

(iii) Periodic risk analyses. State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur.

(3) ADP System Security Reviews. State agencies shall review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices.

(4) Costs incurred in complying with provisions of paragraphs (f)(1)–(3) of this section are considered regular administrative costs which are funded at the regular match rate.

(5) The security requirements of this section apply to all ADP systems used by State and local governments to administer programs covered under 45 CFR part 95, subpart F.

(6) The State agency shall maintain reports of their biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site review.

Cause:

DHSS does not have a formal policy to monitor and review system security over their systems.

The provided SOC1 report does not sufficiently cover the security components required by HHS.

Effect:

Security vulnerabilities can lead to the DHSS systems being compromised. The agency may not be able to measure its security posture and identify security vulnerability when security assessment is not performed on a periodic basis.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

DHSS should coordinate with DTI to implement a formal policy to complete a bi-annual review over system security as required by HHS.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

DHSS's Information Resource Management unit will work with the State Department of Technology and Information to draft and implement a formal policy by Jan. 1, 2013 to complete the biannual system security reviews as required in 45 CFR § 95.621.

Anticipated Completion Date: January 1, 2013

Department of Health and Social Services
Division of Management Services
Reference Number: 11-DHSS-03*
Program: Child Support Enforcement (93.563, S-93.563)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Suspension and Debarment

Condition:

The Department of Health and Social Services did not include the proper suspension and debarment language within the signed contractual agreement with the contractor selected for testwork out of the population of five contractors utilized by the program.

Criteria:

Per the March 2011 Compliance Supplement, " Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the governmentwide nonprocurement debarment and suspension guidance contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions."

Cause:

The Department of Health and Social Services was unable to furnish a signed contract which included the appropriate suspension and debarment language. The Department did not utilize the State's "boiler plate" contract.

Effect:

The Department of Health and Social Services may have entered into a contractual agreement with a vendor which is suspended and/or debarred.

Questioned Costs:

There were no questioned costs associated with this finding due to procedures performed surrounding the suspension and debarment of the contractor in which the contractor was neither suspended nor debarred.

Recommendation:

We recommend that the Department of Health and Social Services develop policies and procedures over the utilization of the State's "boiler-plate" contract.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

* Repeat finding from prior year's audit

Corrective Action Plan:

- It should be pointed out that the contractor was not on the Federal suspension and debarment listing.
- During contract negotiations with contractor A (the first contract related to this finding) the suspension and debarment language from the contract appendix was inadvertently deleted. The contract is being amended to include the required suspension and debarment language and all of the Division contracts, upon amendment or execution will have the required language included. This will be completed by March 1, 2012 and will include the following language which, it should be noted, was contained in the original solicitation which contractor A responded to. "The original solicitation for the State Disbursement Unit automation under which this vendor was selected contained requirements in both Appendix A section 17 and Appendix C section 24 that the selected vendor comply with the provisions and prohibition of the Debarment Act and to affirm that they are not currently subject to either suspension or debarment from Procurement and Non-Procurement activities by the Federal Government.

Anticipated Completion Date: March 1, 2012

Department of Health and Social Services
Division of Management Services
Reference Number: 11-DHSS-04
Program: State Children's Health Insurance Program (93.767)
Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Suspension and Debarment

Condition:

The State does not check annually to determine if a vendor is suspended or debarred. The State has the vendor sign a "boiler plate" contract which certifies that the vendor is not suspended or debarred. Once the contract is signed the State does not check the current status of the vendor in proceeding years.

We note one vendor changed its name in January 2010 from Electronic Data Systems (EDS) to HP Enterprise Services (HP). We note the original vendor contract with EDS (from 2000) did not contain the "boiler plate" language certifying that the vendor was not suspended or debarred. When the vendor changed names an amendment to the contract was provided however the "boiler plate" language was not included in the amendment.

Criteria:

Per the March 2011 Compliance Supplement, Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. 2 CFR section 180.220 of the government wide non-procurement debarment and suspension guidance contains those additional limited circumstances. All non-procurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions.

Cause:

The State did not check because the State relied on the boiler plate language.

Effect:

A vendor that is suspended or debarred during the year or after certifying that they are not suspended or debarred via their contract, would be able to continue to provide services to the State.

Questioned Costs:

There are no questioned costs associated with this finding as the vendor was not suspended or debarred.

Recommendation:

For those vendors that provided a contract before the "boiler plate" process was established, the State should check annually if a vendor is suspended or debarred via the EPLS website and the print out of the results should be included in the vendor's procurement documents.

Also, if the original contract does contain the "boiler plate" language and a vendor changes names, the State should verify per the EPLS website that the vendor is not suspended or debarred.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

This contract did not include the standard federal debarment language, found in clause B (24) of the DHSS boilerplate contract, because this contract was executed prior to 2008 which is when the federal debarment clause was added to the DHSS boilerplate contract document. Though Divisions have been instructed to include the debarment language in amendments, unfortunately, this did not occur in this case.

Fortunately the contractor was not on the suspension and debarment list.

The procurement section of the Division of Management Services will reinforce to DHSS divisions the need to include debarment language in amendments to their contracts.

Anticipated Completion Date: Immediately.

Department of Health and Social Services
Division of Management Services
Reference Number: 11-DHSS-05*
Program: Supplemental Nutritional Assistance Program Cluster (10.551, 10.561, S-10.561)
Temporary Assistance for Needy Families (93.558, S-93.714)
Child Care Cluster (93.596, 93.575, S-93.713)
State Children's Health Insurance Program (93.767)
Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs

Condition:

The Department of Health and Social Services (DHSS) did not follow its cost allocation plan when charging costs related to the Division of Medicaid and Medical Assistance (DMMA). The Public Assistance Cost Allocation Plan (PACAP) designates DMMA costs to be charged directly to the Medicaid Program or through the indirect charge method across all DMMA programs which include the following programs: Medicaid, Delaware Healthy Children Program (SCHIP), Delaware Prescription Assistance Program, Long-Term Care Medicaid Program, Chronic Renal Disease Program, Qualified Medicare Beneficiary Programs, Children's Community Alternative Disability Program, and Breast and Cervical Cancer Program. However, DHSS allocated the DMMA related costs among the Division of Social Services (DSS) programs which include the following programs: Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), Child Care Development Fund (CCDF) and Medicaid.

Criteria:

The State of Delaware follows a PACAP that administers federal programs within the DSS, DMMA, and Division of Management Services (DMS), all of which are divisions within the Delaware DHSS. The PACAP plan was effective for the period July 1, 2005 through September 30, 2008, with an automatic annual conditional approval until the new PACAP is approved. A State must claim Federal financial participation for costs associated with a program only in accordance with its approved cost allocation plan (45 CFR section 95.507).

Cause:

The State did not set up the proper allocation method within its general ledger system to allocate DMMA costs in accordance with the approved PACAP.

Effect:

DMMA costs of $1.4 million, while allowable, were allocated to DSS federal programs in a manner not consistent with the approved PACAP.

Questioned Costs:

Questioned costs are not determinable.

* Repeat finding from prior year's audit

Recommendation:

We recommend the State ensures its general ledger, First State Financials (FSF), is properly configured to allocate costs out of the cost pool in accordance with its approved PACAP Plan. We also recommend that the PACAP Plan be revised to reflect an allocation of costs to federal programs based on the true effort being provided to those federal programs. The State should also implement procedures to perform a review of the costs being allocated out of the cost pool to ensure it is being allocated in accordance with the approved PACAP.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

As background and as stated in last year's Single Audit response, in February 2010, DHSS secured assistance from an independent firm for the purpose of reviewing the department's Random Moment Sampling (RMS) process which is a vital component of the Public Assistance Cost Allocation Plan (PCAP). Based on this review, changes were implemented to improve that process and the resulting allocations. This included regular updates to the employee roster from which the RMS sample is drawn and the provision of RMS training to workers that respond to the time study.

Additionally, DHSS released a Request for Information (RFI) for proposals to replace DHSS's Random Moment Time Study (RMTS) and cost allocation system software (both applications were unsupported and outdated).

Since last year's Single Audit, contracts have been awarded. A new internet based RMTS was fully implemented on 1/1/11 with a cost allocation plan amendment submitted in December 2010. Workers (RMTS respondents) were trained prior to implementation. Annual refresher training for workers began January 2012. The cost allocation software was also installed and implemented in July 2011which included provision of a technical documentation and users manual. DHSS staffs were trained in its use.

In FY-11, subsequent to releasing a Request for Proposal (RFP), DHSS awarded a contract to secure further outside assistance to review of DHSS's system of Federal program administration and cost allocation including an in-depth review of the public assistance programs DHSS participates in, allocation methodologies and the supporting systems/processes. The objective of this concentrated effort is to (1) update/document the cost pools and allocation methodologies, (2) upgrade/improve the systems related to and supporting the PCAP, and (3) production of an up-to-date, integrated DHSS PCAP with sound quality control procedures.

The initial work of interviewing the various internal DHSS organizations to identify the various cost pools has been completed and an initial draft update to the DHSS PCAP narrative developed. This includes a clear segregation of DSS and DMMA costs in the plan and the application of discrete and different allocation methods to those costs. The next work phase (to commence February 2012) is to design/refine the various allocation methodologies, time studies, accounting structures that need to be in place. This phase is critical in order for us to be able to fully formulate the PCAP and then have the systems/structures in place prior to the PCAP submission and implementation.

We target completing this project in calendar year 2012 with the resulting PCAP submitted to the Department of Health and Human Services Division of Cost Allocation toward the end of the fourth quarter of calendar year 2012.

Lastly, it should be pointed out that the DMMA workers (via the eligibility process they carry out) that participate in the Random Moment time Study legitimately support and benefit the Federal programs in DSS and by extension, so do the other cost pools in DMMA. The programs benefiting from DMMA and DSS cross organizations and are not restricted to just one organization.

But again, what the new narrative does and the updated PCAP (when implemented) will do is to more comprehensively account for all cost pools and organizational units in DSS and DMMA. By programming different and/or more discrete allocation methods into the DHSS cost allocation software (previously mentioned in this response), the software will create more specific cost pools that can then be set up in the State accounting system and assigned to expenditures in the system itself.

Anticipated Completion Date: 2012

Department of Health and Social Services
Division of Medicaid and Medical Assistance
Reference Number: 11-DMMA-01*
Program: Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Eligibility

Condition:

For 1 out of 65 applicants selected, the Division of Medicaid and Medical Assistance (DMMA) did not provide evidence that the applicant's Social Security Number was verified with the Social Security Administration (SSA) during the period under audit. The DMMA was able to provide a screen shot from the DCIS system showing the SSN verification for this applicant; however, the match date was 12/6/2011, which was subsequent to the fiscal year under audit (7/1/10 – 6/30/11). The Department also subsequently provided a screens shot from the DACSES System showing the SSN for the applicant in regards to the applicant's Child Support obligation inputted in 1996. We were unable to identify whether or not a SSN verification was completed utilizing this system screen shot.

Criteria:

The Compliance Supplement states "these include that the State or its designee shall: Verify each SSN of each applicant and recipient with SSA to insure that each SSN furnished was issued to that individual and to determine whether any other were issued (42 CFR sections 435.910(g) and 42 CFR section 435.920)."

Cause:

The lack of verification resulted from the DCIS system not having included the applicant within the population to run through the data matching interfaces with the Social Security Administration.

Effect:

Households may receive government benefits without the legal security that individuals who make false statements will be persecuted to the full extent of the law.

Questioned Costs:

The individual was deemed eligible for the Adult Expansion Population Medicaid under the Diamond State Health Plan, Delaware's Medicaid Managed Care Program which provides Medicaid coverage to all uninsured adults aged 19 and older with gross income that is at or below 100% of the Federal Poverty Level. The questioned costs of $2,031 relates to the qualifying claims during the fiscal year ending June 30, 2011.

Recommendation:

We recommend that the State modify its procedures to ensure all cases are subject to data matching.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

* Repeat finding from prior year's audit

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

We believe that the conclusion the auditors have arrived at is faulty. As demonstrated in the information and documentation provided the auditors, the SS# has been confirmed at a range of points within the life of this client's touching DHSS and its programs. The auditors narrowly viewed that the SS# should have been confirmed during the audit period. The fact of the matter is that this is unnecessary as the SS# was confirmed prior to the audit period and confirmation does not need to be repeated as SS#'s for a person are assigned for their lifetime and does not change. Also – the auditors do recognize a SS# match on 12/6/11. Again – since SS#'s don't change, we believe there are no questioned costs associated with this finding.

Anticipated Completion Date: Not applicable.

Auditors' Response:

As cited in the Condition of the finding above, the screen shot from the DCIS system showing the SSN verification for this applicant was dated 12/6/2011. In addition, the screen shot from the DACSES system did not provide evidence that the applicant's SSN was properly verified with the SSA. Therefore, DMMA has not provided proper evidence to show that the SSN was verified with the SSA prior to 12/6/2011, which was subsequent to the fiscal year under audit (7/1/10 – 6/30/11).

Department of Health and Social Services
Division of Medicaid and Medical Assistance
Reference Number: 11-DMMA-02
Program: State Children's Health Insurance Program (93.767)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Eligibility

Condition:

Three out of our sample of forty children receiving SCHIP benefits were determined to be ineligible to receive SCHIP benefits. Children who receive either Medicaid or they were covered under another independent healthcare provider are not also eligible to receive SCHIP benefits. The amount received by each child is the following:

Child #1 received MCI#1033248-$627.05 ($416.27 FFP) Child #2 received MCI#812915-$1223.29 ($815.07 FFP), and Child #3 MCI# 1687470- $337.11 ($226.57 FFP) received SCHIP benefits during the State's fiscal year 11.

Criteria:

States have flexibility in determining eligibility levels for individuals for whom the State will receive enhanced matching funds within the guidelines established under the Act. Generally, a State may not cover children with higher family income without covering children with a lower family income, nor deny eligibility based on a child having a preexisting medical condition. States are required to include in their State plans a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning individual eligibility requirements (42 USC 1397bb(b)).

Per section 4.1 Delaware's State Plan the following standards may be used to determine eligibility of targeted low-income children for child health assistance under the plan:

4.1.7 Must be uninsured for at least 6 previous months

4.1.8 12 months of guaranteed eligibility

4.1.9 Must be (1) ineligible for enrollment in any public group health plan; and, (2) a social security number is required for an applicant child, effective August 24, 2001

Cause:

The information entered into MMIS does not interface with DCIS, and, therefore, updates in MMIS are not considered until annual redetermination.

In two cases the child was receiving private health benefits at the same time as receiving SCHIP benefits in FY2011. The State was aware the child was receiving private health benefits and the information was correctly included in the MMIS system. However, the information was not included in the DCIS II system.

In one case the child was receiving Medicaid benefits at the same time as receiving SCHIP benefits in FY2011. The State was aware the child was receiving Medicaid and the information was correctly included in the MMIS system. However, the information was not included in the DCIS II system.

Effect:

The recorded information in MMIS does not match the information in DCIS II. State employees responsible for determining SCHIP eligibility via the DCIS II system are relying on inaccurate recipient information. Therefore children receiving SCHIP benefits may not be eligible to receive these benefits.

Questioned Costs:

Questioned costs associated with the three children are $2,187.45 total computable dollars ($1,457.91 FFP).

Recommendation:

The DCISII and MMIS systems should interface to ensure that the information recorded in one system agrees to what is recorded in the other system.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

DSS concurs that the children were ineligible for SCHIP because all three had private health insurance. One part of the finding is incorrect. One child (MCI# 1687470) did not have Medicaid and SCHIP at the same time. The child received Medicaid from 7/1-9/30/10 and then SCHIP 10/1-1/31/11 and then Medicaid 2/1/11-9/30/11. The period when the child qualified for Medicaid is not an error. Children receiving Medicaid are eligible even if the child is covered by private insurance.

The parent/caretaker is not always the most reliable informant about private health insurance. The information obtained by MMIS matches with private insurance or through the Division of Child Support is more reliable.

When the MMIS is re-procured or if the current MMIS can be improved, this error could be eliminated with the following changes:

- When TPL information is entered in the MMIS, have the MMIS create an interface so the TPL information is passed to DCIS. The interface populates the DCIS TPL screens and an alert is sent to the assigned Social worker to “process” the change which will terminate SCHIP eligibility and the parent caregiver will receive the proper notice.
- When a new SCHIP child is passed from DCIS to the MMIS, the MMIS should check the MMIS TPL screens to determine if the child has other insurance. If the child has other insurance, SCHIP should be denied and notice sent to the parent/caretaker. The interface populates the DCIS TPL screens and an alert is sent to the assigned social worker to “process” the change which will terminate eligibility.

Anticipated Completion Date: Upon establishment of interface between DCIS and MMIS systems.

Department of Health and Social Services
Division of Social Services
Reference Number: 11-DSS-01
Program: Child Care Cluster (93.575, 93.596, S-93.713)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Special Tests and Provisions (Fraud Detection and Repayment)

Condition:

We obtained a listing of 34 claims established during the State's Fiscal Year. The claims identified by the Audit Recovery and Management System (ARMS) department were coded as Agency Errors (AE) or Inadvertent Household Errors (IHE). Therefore, we selected nine cases to review for compliance with the Fraud and Detection Repayment Requirement and noted the following:

- For two out of nine case files, the referral process was not completed within the appropriate time frame.
- For Case #1, the overpayment was reported to the Division of Child Support Enforcement (DCSE) in November 2007. It was reported to the Division of Social Services (DSS) on January 2008 and an overpayment was prepared by DSS on October 2009. ARMS received the overpayment paperwork from DSS on January 2010 and prepared an overpayment claim on January 2010.
- For Case #2, the original Date of Discovery by the investigator was June 2009, but the claim was established on February 2011 by ARMS.

Criteria:

Per the 2010 DHSS, Division of Management Services, Audit and Recovery Management Services (ARMS) Management Plan Section 3&4 (a), "A referral is a request to investigate potential/suspected fraudulent activity or eligibility issues within those benefit service programs administered through the Department of Health and Social Services (DHSS). These requests are received from private citizens, State, local and federal agencies. A referral is the starting point of the investigation. The referral source is just the vehicle that delivers the allegation or eligibility issue that needs to be investigated. The reporter has the option of maintain their anonymity. All referrals are treated confidentiality.

Referral Completion Time Frames:

Referral Type	Completion Timeframe
DSS/DMMA/QC Referral for Overpayment/Prosecution	30 calendar days
State/Federal Agency Referrals	30 calendar days

Cause:

The Division of Audit and Recovery Management Services did not follow their ARMS Management Plan with their referral completion time frames.

Effect:

The Division of Audit and Recovery Management Services processed claims that were referred outside of the referral completion time frames.

Questioned Costs:

There are no questioned costs associated with this finding because the claims were identified as Inadvertent Household Errors (IHE) rather than an Intentional Program Violations (IPV).

Recommendation:

We recommend that the Division of Audit and Recovery Management Services follow the procedures outlined in their ARMS Management Plan.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

Due to several factors, these two cases were completed outside the completion timelines. ARMS will take steps to expedite processes to avoid a reoccurrence.

Anticipated Completion Date: Immediately.

Department of Health and Social Services
Division of Social Services
Reference Number: 11-DSS-02
Program: Child Care Cluster (93.596, 93.575, S-93.713)
Type of Finding: Material Weakness
Compliance Requirement(s): Earmarking

Condition:

Per the Fiscal Year 08 ACF 696 Final Report submitted on 9/30/2010, quality activity expenditures were $831,405. The total expenditures per the report were $25,424,142; therefore the four percent of expenditure Earmark for Quality Activities did not appear to be met. Quality activities were 3.27% ($831,405/$25,424,142) which does not meet the minimum requirement of four percent. Subsequent research by the Agency revealed that the submitted ACF 696 Final Report contained errors on line 1, 4 and 6 Column C. On line 6 (column C) $6,458,196 was reflected as transferred from TANF and expended. In reviewing the record of expenditures, no funds were transferred and expended from TANF. This overstates the total amount expended on CCDF by $6,458,196. As a result:

- The correct amount on line 6 Column C should have been zero.
- The correct total reported amount should have been $18,965,946.
- The required 4% Quality Activity would be $758,638 ($18,965,946 X's 4%).
- By expending $831,405 on Quality Activity, DHSS has met and even exceeded the required 4%.

Criteria:

Quality Earmark – States and Territories must spend on quality and availability activities, as provided in the State/territorial plan, not less than 4 percent of CCDF funds expended (i.e., the total of CFDAs 93.575, 93.596, and 93.713 funds) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed. (45 CFR section 98.51)

Cause:

The Division of Social Services does not have controls in place to monitor the earmark requirement.

Effect:

The Division of Social Services was unaware that it was deemed to not have met the minimum earmark for quality activities based on the submitted reports. Additionally, inaccurate reporting could lead to erroneous earmarking calculations.

Questioned Costs:

There are no questioned costs associated with this finding as DHSS is deemed to have met the earmarking requirements based on corrected reporting amounts.

Recommendation:

We recommend that the Department of Health and Social Services develop procedures and controls to monitor earmarking requirements.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

In reviewing this finding and reviewing the Fiscal Year 08 ACF 696 Final Report submitted on 9/30/2010, an error was discovered on line 1, 4 and 6 Column C. On line 6 (column C) $6,458,196 was reflected as transferred from TANF and expended. In reviewing the record of expenditures, no funds were transferred and expended from TANF. This overstates the total amount expended on CCDF by $6,458,196.

Therefore:

- The amount on line 6 Column C should have been zero.
- The total reported amount $18,965,946.
- The required 4% Quality Activity would be $758,638 ($18,965,946 X's 4%).
- By expending $831,405 on Quality Activity, DHSS met and even exceeded the required 4%.

DHSS will submit a revised the Fiscal Year 08 ACF CCDF 696 Final Report to correct this error.

Additionally, DHSS is currently engaged in developing written procedures for report preparation which will include steps to avoid this type of error from occurring.

Anticipated Completion Date: Immediately.

Department of Health and Social Services
Division of Social Services
Reference Number: 11-DSS-03
Program: Supplemental Nutritional Assistance Program Cluster (10.551, 10.561, S-10.561)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Matching

Condition:

For three of the sixty-five matching transactions tested, we note the incorrect matching percentages were used to calculate the matching amounts for FY2011. For two of the transactions the Division of Social Services (DHSS) charged the State a matching rate of 45% instead of the required 50%. For the first transaction, the total amount of the transaction was $564. The amount charged to the State was $254, whereas $282 should have been charged to the State. For the second transaction the total amount of the transaction was $301. The amount charged to the State was $135, whereas $150 should have been charged to the State. For the third transaction the DHSS did not charge the State a matching rate, whereas they should have charged a rate of 50%. The amount charged to the State was $217, whereas 50% or $109 should have been charged to the State.

Criteria:

The State is required to pay 50 percent of the costs of administering the program. Exceptions to this 50 percent reimbursement rate include 100 percent grants to: a. Administer the Employment and Training component of the program (7 CFR section 277.4(b)); and b. Provide nutrition education and obesity prevention services, beginning October 1, 2010 (7 USC 2036a, Section 241 of Pub. L. No. 111-296, 124 Stat. 3183, December 13, 2010). There is no matching requirement for ARRA funding of a State's SNAP administrative costs. (Sections 101(c) of ARRA, 123 Stat. 120)

Cause:

Portions of two cited payments and 100% of another cited payment were charged in error to FNS State Exchange funds.

Effect:

The Division of Social Services is expending funds which are not in accordance with the set Federal and State split matching percentages which will lead to a decrease in allocations made by the State.

Questioned Costs:

The questioned costs associated with this finding are $152. The total expenditures for the 65 matching transactions tested in our sample were $2,963,132, and the total expenditure population subject to our sampling was $12,795,889 for the fiscal year ended June 30, 2011.

Recommendation:

We recommend that the Division implement policies and procedures surrounding documentation retention as well as policies and procedures surrounding the utilization of the appropriate Federal and State matching percentages.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

The three cited payments were charged in error to FNS State Exchange funds. DSS will process correcting entries in the State accounting system to remove the charges from the State Exchange funds and charge them to the 50% SNAP administrative funds. Additionally DSS will heighten its review of payments against FNS State Exchange funds to avoid this type of error from reoccurring.

Anticipated Completion Date: Immediately.

Department of Health and Social Services
Division of Social Services
Reference Number: 11-DSS-04
Program: Child Care Cluster (93.596, 93.575, S-93.713)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Reporting

Condition:

For 1 of the 2 ACF-696 reports reviewed, the CCDF Form ACF-696 Report expenditures were inaccurately recorded. Per the Financial Aid Report from First State Financials (FSF), expenditures were $3,275,670; per the Form ACF-696 report, expenditures were $5,647,230 for the quarter ending June 30, 2011.

Criteria:

ACF-696, Child Care and Development Fund Financial Report (OMB No 0970-0163) is due quarterly from States and Territories. These reports are in lieu of the SF-269, Financial State Report/SF-425, Federal Financial Report (financial status). Each fiscal year's expenditure report must be separate, therefore, multiple reports may be required if awards from more than one fiscal year are expended in a given quarter. Any funds transferred from TANF are treated as Discretionary Funds for reporting on the ACF-696. (42 USC 604(d); 45 CFR section 98.54(a))

Cause:

The Division of Social Services does not have an adequate control to review and reconcile total amounts reported on the Form ACF-696 to the total amounts reported in FSF, to ensure that all federal expenditures are accurate and included in the Form ACF-696.

Effect:

The amounts reported to the U. S. Department of Health and Human Services on Form ACF-696 could not be reconciled to the amounts reported on the FSF generated report (DGM001_M) which results in the Federal Government having less/more information about expenditures than were really incurred, which will increase/decrease the analysis of allocation made to the State. The Division over reported expenditures by a total of $2,371,560 ($5,647,230 – $3,275,670).

Questioned Costs:

There are no questioned costs associated with this finding as the amount of cash drawn agrees with the expenditures recorded per FSF.

Recommendation:

We recommend that the Department of Health and Social Services develop procedures to reconcile cumulative expenditures reported on Form ACF-696 to expenditures accumulated in FSF, to ensure all federal expenditures and transfers to other Federal programs are appropriately reported.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

While the expenditure information was in the FSF system, the original configuration of the FSF report (DGM001_M) used by DHSS did not give adequate detail to complete the ACF-696 reports accurately. The FSF report has been subsequently reconfigured to more appropriately reflect the information in the underlying FSF system. DHSS will conduct an analysis of the reconfigured DGM001_M report and accurately reflect expenditures on the ACF-696 report.

Additionally, DHSS is currently engaged in developing written procedures for report preparation which will include reconciling expenditures on Federal reports to expenditures in FSF, the State's accounting system.

Anticipated Completion Date: Immediately.

Department of Health and Social Services
Division of Social Services
Reference Number: 11-DSS-05
Program: Supplemental Nutritional Assistance Program Cluster (10.551, 10.561, S-10.561)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Reporting

Condition:

We were unable to obtain and test a reconciliation of the SNAP amounts reported to the U.S. Department of Agriculture (USDA) on Form SF-269 to the amounts reported on the First State Financials (FSF) generated reports as well as the supporting documentation provided. We note that total expenditures per FSF were $1,275,904 and the Form SF-269 reported total expenditures of $2,675,583 for the quarter ending December 31, 2010. For the quarter ending June 30, 2011, total expenditures per FSF were $13,546,604 and the Form SF-269 reported total expenditures of $11,159,535.

Criteria:

(c) *Financial status report*

(1) Form. State agencies shall use the standard Financial Status Report (Form SF–269) to report program costs.

(2) Frequency. The report (Form SF–269) shall be required quarterly.

(3) Exceptions. Those State agencies that receive payments under the U.S. Treasury check system shall submit to FNS a Quarterly Report of Federal Cash Transactions (Form SF–272).

(4) Due dates. Quarterly reports shall be due April 30 (for the period January through March), July 30 (April through June), October 30 (July through September), January 30 (October through December). Final reports are due December 30 for all completed Federal fiscal years (October 1 through September 30) or 90 days after termination of Federal financial support. Requests from State agencies for extension of reporting due dates may be approved, if necessary. (7 CFR section 277.11(c))

Cause:

The Department of Health and Social Services does not have a procedure in place to reconcile total amounts reported on the Form SF-269 to the total amounts reported in FSF, to ensure that all federal expenditures are accurate and included in the Form SF-269 report.

Effect:

The amounts reported to the USDA on Form SF-269 could not be reconciled to the amounts reported on the FSF generated report (DGM001_M) which results in the Federal Government having less/more information about expenditures than were really incurred, which will increase/decrease the analysis of allocation made to the State.

Questioned Costs:

The comparison between the Form SF-269 and the FSF Report (DGM001_M) utilized to prepare the Form SF-269 has a questioned cost of $2,387,069 for the Form SF-269 for the period ending June 30, 2011.

Recommendation:

We recommend that the Department of Health and Social Services develop procedures to reconcile cumulative expenditures reported on Form SF-269 to expenditures accumulated in FSF, to ensure all federal expenditures and transfers to other Federal programs are appropriately reported.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

While the expenditure information was in the FSF system, the original configuration of the FSF report (DGM001_M) used by DHSS did not give adequate detail to complete the SF-269 reports accurately. The FSF report has been subsequently reconfigured to more appropriately reflect the information in the underlying FSF system. DHSS will conduct an analysis of the reconfigured DGM001_M report and accurately reflect expenditures on the SF-269 report.

Additionally, DHSS is currently engaged in developing written procedures for report preparation which will include reconciling expenditures on Federal reports to expenditures in FSF, the State's accounting system.

Anticipated Completion Date: Immediately.

Department of Health and Social Services
Division of Social Services
Reference Number: 11-DSS-06*
Program: Temporary Assistance for Needy Families (93.558, S-93.714)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Reporting

Condition:

We were unable to test a reconciliation of the TANF amounts reported to the U.S. Department of Health and Human Services on Form ACF-196 to the amounts reported on the First State Financials (FSF) generated reports as well as the supporting documentation provided.

Total expenditures per the FSF DGM001_M report were $33,346,698 and the ACF-196 reported total expenditures of $25,832,785, therefore the reconciling difference is $7,513,913 (these balances include both State and Federal activities incurred for the quarter ending December 31, 2010).

We received the FSF DGL123 report, which per discussion with the Department, was the proper report to utilize to accurately report the Federal expenditures for the program. We note that the total TANF expenditures per the quarter was $28,438,766, therefore the reconciling difference between the ACF-196 report and the DGL123 is $2,605,981, for the quarter ending December 31, 2010.

Criteria:

ACF-196, *TANF Financial Report (OMB Control No. 0970-0247)* - States are required to submit this report quarterly in lieu of SF-269, *Financial Status Report*. Each State files quarterly expenditure data on the State's use of Federal TANF funds, State TANF MOE expenditures, and State expenditures of MOE funds in separate State programs. If a State is expending Federal TANF funds received in prior fiscal years, it must file a separate quarterly TANF Financial Report for each fiscal year that provides information on the expenditures of that year's TANF funds.

Cause:

The Department of Health and Social Services does not have a procedure in place to reconcile total amounts reported on the Form ACF-196 to the total amounts reported in FSF, to ensure that all federal expenditures and transfers to other programs (Child Care Development Fund and Social Services Block Grant) are accurate.

Effect:

The amounts reported to the U. S. Department of Health and Human Services on Form ACF-196 could not be reconciled to the amounts reported on the FSF generated report (DGM001_M) which results in the Federal Government having less information about expenditures than were really incurred, which may affect the analysis of allocation made to the State.

* Repeat finding from prior year's audit

Questioned Costs:

The comparison between the Form ACF-196 and the FSF Report (DGM001_M) utilized to prepare the Form ACF-196 has a questioned cost of $2,605,981 for the Form ACF-196 for the period ending December 31, 2010.

Recommendation:

We recommend that the Department of Health and Social Services develop procedures to reconcile cumulative expenditures reported on Form ACF-196 to expenditures accumulated in FSF, to ensure all federal expenditures and transfers to other Federal programs are appropriately reported.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

While the expenditure information was in the FSF system, the original configuration of the FSF report (DGM001_M) used by DHSS did not give adequate detail to complete the ACF-196 reports accurately. The FSF report has been subsequently reconfigured to more appropriately reflect the information in the underlying FSF system. DHSS will conduct an analysis of the reconfigured DGM001_M report and accurately reflect expenditures on the ACF-196 report.

Additionally, DHSS is currently engaged in developing written procedures for report preparation which will include reconciling expenditures on Federal reports to expenditures in FSF, the State's accounting system.

Anticipated Completion Date: Immediately.

Department of Health and Social Services
Division of Social Services
Reference Number: 11-DSS-07
Program: Child Care Cluster (93.596, 93.575, S-93.713)
Type of Finding: Significant Deficiency
Compliance Requirement(s): Special Tests and Provisions (Health and Safety Requirements)

Condition:

During our testing of license issuance at the Office of Child Care and Licensing (OCCL), we noted for one out of forty case files selected, the license application was not completed or present in the case file, and the provider was provided with a Child Care Provider License.

Criteria:

Lead Agencies must verify that child care providers (unless they meet an exception, e.g., family members who are caregivers or individuals who object to immunization on certain grounds) serving children who receive subsidies meet requirements pertaining to prevention and control of infectious diseases, building and physical premises safety, and basic health and safety training for providers (45 CFR section 98.41).

Cause:

The Office of Child Care and Licensing did not follow their procedure and policy for issuing licenses to providers and maintaining compliance with licensure.

Effect:

The Office of Child Care and Licensing issued license to providers or allowed providers to maintain their licensure without obtaining or completing the required attributes to obtain or maintain their licensure.

Questioned Costs:

There were no questioned costs associated with this finding as the provider was subsequently determined to be appropriately licensed.

Recommendation:

We recommend that the Office of Childcare and Licensing follow their procedures and policies for issuing licenses and maintaining licensure for providers.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

Unfortunately, OCCL was not able to locate the cited application that was submitted. In viewing this finding, it is important to consider the process used to issue a license. Prior to a license being issued the renewal packet is reviewed by the Licensing Supervisor for completeness; the application would be one of the documents the Licensing Supervisor would specifically have been looking for – without which the Licensing Supervisor would have not signed off (which is required prior to the issuance of a license). In

other words, without the application, the license would not have been issued. In fact, OCCL would have closed the case because the license is valid for only one year and would have expired. The lack of an application is viewed by OCCL as an incident of human error of a misfiled document which has not been located. DSS will communicate to OCCL the need to ensure that all documentation is properly maintained/filed in order to provide a proper audit trail of the approval process.

Additionally, OCCL conducted licensing site visits to the provider on 7/9/09, 10/28/10, 10/28/11, 11/29/11, and 1/9/12. The point is that there is a system in place that regularly monitors the compliance of the provider's facility to Delaware Rules which, if not complied with, the license would be revoked. This was not the case with this provider.

Anticipated Completion Date: Immediately.

Department of Health and Social Services
Division of Child Support Enforcement
Reference Number: 11-CSE-01*
Program: Child Support Enforcement (93.563, S-93.563)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Special Tests and Provisions (Establishment of Paternity and Support Obligations)

Condition:

For 12 of 65 support obligation cases sampled, paternity was not established or attempted to be established within the required timeframes for children born out of wedlock. On average, the cases were 180 days beyond the timeframe set within the policies and procedures.

Criteria:

The IV-D agency must attempt to establish paternity and a support obligation for children born out of wedlock. The agency must establish a support obligation when paternity is not an issue. These services must be provided for any child in cases referred to the IV-D agency or to individuals applying for services under 45 CFR section 302.33 or 45 CFR section 309.65(a)(2) for whom paternity or a support obligation had not been established (45 CFR sections 303.4 and 303.5, 45 CFR sections 309.100 and 309.105). For State IV-D agencies, these services must be provided within the time frames specified in 45 CFR sections 303.3(b)(3) and (b)(5), 303.3(c) and, 303.4(d)." According to the DCSE Policy Manual as well as the Child Support Enforcement Code (45 CFR 308.2(b)(1)), after locating the alleged father of the child, the Child Support Enforcement Office has 90 days in order to establish or attempt to establish paternity as well as establish a support obligation order.

Cause:

Non-compliance with the establishment of paternity and support obligations was due to lack of oversight by the assigned case employee and supervisor or a shortage of staff at the agency or the Attorney General's Office who processes support petitions. Per discussion with Program management, the cause of this non-compliance relates to Family Court dealing with backlog issues of court cases and filling of petitions. Currently there is a shortage of attorneys within the Attorney General's office resulting in cases not being filed and completed within the required allotted timeframe.

Effect:

If action is not taken within the required timeframe to establish paternity, when applicable, court petitions and support obligations cannot be conducted timely.

Questioned Costs:

Questioned costs associated with this finding are not applicable as this is an attribute of program activity.

Recommendation:

We recommend that Child Support Enforcement management work with the Attorney General's Office to reduce the noted backlog.

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* Repeat finding from prior year's audit

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

The Division of Child Support Enforcement (DCSE) recognizes that establishment of paternity and getting cases through to the court must be improved. The number of Child Support Specialist and administrator/supervisor positions has decreased over the past 4 years at the same time as an approximate 25% increase in the caseload. These two factors have contributed to our inability to meet established timeframes. During the week of January 16, 2012, DCSE was notified that we will be given a combination of 6 new full and part time Child Support Specialist positions, all of which will be deployed to assist with establishment. DCSE has also designated a child support specialist to be deployed to Christina Hospital, the state's largest birthing facility. That CSS will work with hospital staff and new un-wed parents to complete voluntary acknowledgments of paternity (VAP). If the parents ever seek child support orders through DCSE having the VAP in place will greatly expedite the adjudication of paternity and the establishment of new support orders.

DCSE caseworkers will be undertaking large scale paternity establishment and case closure projects in order to increase the number of paternities established in the IV-D caseload. This will involve a greater level of outreach to our custodial parents. The hope is that as a result, better information will be gathered to expedite the generating and filing of New Support petitions with the Family Court in Delaware.

Anticipated Completion Date: Ongoing

DCSE management has a robust working relationship with the Delaware Department of Justice (DOJ), Family Services Unit. When the DCSE caseworker generates a New Support Petition, the petition is turned over to an Administrative Support Specialist for logging into an Access databases. Once completed, an e-mail is sent to the paralegal at the DOJ informing them of the total number of petitions (broken down by type) being sent to them by courier. The DCSE courier delivers and retrieves mail daily from the DOJ. In addition, DCSE is in the process of developing and implement a new information system to replace DACSES. The new system, called DECSS (Delaware Child Support System) is designed to expedite the exchange of information with the DOJ and to automate the as much as possible the moved of cases through the establishment process. The petitions will be passed electronically as data to the DAG's for review and approval, and when approved will be sent electronically to the Family Court. We expect that the elimination of transferring paper to multiple destinations will reduces the paternity establishment and the support order issuance process significantly. DECSS is scheduled for implementation in October, 2013.

New Support Petitions are a quick turnaround by the attorneys at the DOJ. DCSE management is going to implement the following processes internally and with the DOJ to ensure timely filings of new support petitions with the Family Court in order to not hamper the establishment of paternity in new child support cases.

1) DCSE management will work with the DOJ to ensure that new support petitions are acted upon first.

   Anticipated Completion Date: Ongoing

2) Each Friday, the Administrative Support Staff will query the Access data base to determine how many petitions are pending approvals at the DOJ. Any unsigned petitions with the DOJ for more than 2 weeks will be addressed with the paralegal.

   Anticipated Completion Date: Ongoing

3) E-mails will be sent to the paralegal at the DOJ when it has determined that the number of petitions located at the DOJ appears to be high.

   Anticipated Completion Date: Ongoing

4) Reminders monthly will be sent to the Child Support Specialists, by DCSE management ensuring that they can electronically transmit the signed petition to Family Court.

   Anticipated Completion Date: Ongoing

5) DCSE management will request Quarterly meetings with the Service of Process vendor to work out any challenges that are affecting timely service of non-custodial parents.

   Anticipated Completion Date: Ongoing

Department of Health and Social Services
Division of Public Health
Reference Number: 11-DPH-01*
Program: Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Subrecipient Monitoring

Condition:

We reviewed 2 of the 6 entities subject to Subrecipient Monitoring procedures for the Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) Program, to conform that subrecipient monitoring finding for fiscal year 2009-2010 continued into fiscal year 2010-2011, we noted the following:

1) Subrecipient A-133 Audit Compliance Certifications were not mailed out to the subrecipients in accordance with State policy (telephone conversations were used instead of official confirmation).

2) Documentation over the subrecipients' financial information and A-133 single audit reports was unavailable for testing as the review procedures of the 2010 sub-recipient information was not completed at the time of our audit procedures, 13 months after calendar year 2010 ended.

Criteria:

Per the State's Subrecipient Monitoring Procedures for the Water Pollution Control Revolving Fund and the Drinking Water State Revolving Fund "Subrecipients will receive a Compliance Certification form from FAB (Financial Assistance Branch) at the close of their respective fiscal year, which they are required to complete and return."

Pass-through entities are required to review financial and performance reports submitted by its subrecipients. They must also ensure that subrecipients receiving more than $500,000 of federal money comply with single audit requirements of A-133. They must also perform certain during the award monitoring of the sub-recipient's use of Federal awards through reporting, site visits, regular contact, or other means. The requirements for subrecipient monitoring are contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), OMB Circular A-133 (§___.225, §___.310(d)(5), §___.400(d)), A-102 Common Rule (§___.37 and §___.40(a)), and OMB Circular A-110 (2 CFR section 215.51(a)), program legislation, Section 1512(h) of ARRA, 2 CFR section 176.50(c), Federal awarding agency regulations, and the terms and conditions of the award.

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (OMB No. 1215-0149).

* Repeat finding from prior year's audit

Cause:

Due to staffing constraints, the State was unable to mail the forms in a timely manner. Additionally, supporting documentation with evidence of review (signature/sign-off) is not being maintained to evidence that sufficient during the award period monitoring is being performed.

Effect:

Subrecipient monitoring is not being performed and federal funds passed to subrecipients may not be spent in accordance with the grant program.

Questioned Costs:

Questioned costs of the $78.2 million sub-granted are not determinable.

Recommendation:

We recommend that all policies and procedures are followed and that timely monitoring of subrecipient A-133 audit requirements is performed to ensure they are in compliance with all federal guidelines.

We also recommend that the State prepare and maintain any checklists or summaries of review findings when performing site visits to show proper evidence that the site visit is being performed and document all procedures performed during the visit to ensure that the subrecipient is complying with federal regulations. These checklists and summaries should include proper sign off by the individuals performing the site visit and be reviewed by a manager to ensure that the conclusions reached by the preparer are appropriate and that any necessary follow up is being performed if deficiencies were identified. Managers should sign the checklist or summaries as evidence their review.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

The DWSRF assumed direct responsibility for subrecipient monitoring as of October 1, 2011. In preparation for assuming the direct responsibility, the DWSRF took several actions:

- In the 4th Quarter of FY2011 the DWSRF hired an Accounting and Auditing Specialist to monitor compliance with program requirements.
- In the 4th Quarter of FY2011 Task lists and timetables were developed for the sub-recipient monitoring process.
- In the 1st quarter of FY2012, letters were mailed to sub-recipients detailing the A-133 requirements and requesting the return of the Compliance Certification.

All Compliance Certifications have been returned. The first sub-recipient financial information and A-133 single audit reports are arriving. The reports are being reviewed using documented DWSRF procedures.

Anticipated Completion Date: October 1, 2011

Department of Health and Social Services
Division of Public Health
Reference Number: 11-DPH-02*
Program: Special Supplemental Nutrition Program for Women, Infants and Children (10.557)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Reporting

Condition:

During our review of the FNS-798A September 2010 Closeout Report, we note that insufficient documentation was maintained in order to ensure accuracy of the amounts reported to the USDA. The administrative costs of $4,652,182 agreed to amounts in First State Financials (FSF) in total and we identified how $4,528,041 of those administrative costs were allocated between the eight functions/activities on the FNS-798A report; however, $124,141 of those administrative costs, could not be determined to which of the eight functions/activities the cost should have been allocated to because there was not a program code assigned for these costs. The WIC Program personnel included this cost of $124,141 in the State Level Expenditures General Administration category.

Criteria:

FNS-798A, Addendum to WIC Financial Management and Participation Report – NSA Expenditures (OMB No. 0584-0045) – State agencies prepare the FNS-798A annually to report: (1) NSA expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined. FNS uses the amounts reported in nutrition education and breast-feeding promotion and support, two of the four functional categories on the FNS-798A, to determine whether the State agencies met the statutory minimum spending level for those functions.

Cause:

Proper supporting documentation was not maintained in order to clearly reconcile $124,141 of expenditure amounts for the WIC Administrative Cost reported in FSF.

Effect:

NSA Expenditures for the period being reported may be misstated and not be included in the appropriate function/activities.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the program maintain all appropriate supporting documentation and schedules to show how amounts reported on the FNS-798 reconcile to FSF and verify that all WIC all expenditures are assigned a Program Code.

* Repeat finding from prior year's audit

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

As part of corrective action (subsequent to last year's audit), DPH put in place written procedures that now include supporting documentation standards. This also includes enhanced supervisory oversight as well as the review and approval of staff's work and the program's financial reports.

Unfortunately when this cited report (September 2010 WIC FNS 798A) was prepared, the procedures had not yet been formulated and the critical employee was still out due to illness.

It should be stressed that the total amount reflected on the FNS 798A for September 2010 WIC Program Close Out Report agrees with the total expenditures recorded in FSF (the new State accounting system). Total administrative expenditures reported reconcile to FSF. There were administrative expenses reported under general administration because those costs could not be further broken down (i.e. the procedures had not been developed at the time of this report's submission).

It should also be pointed out that subsequent FNS 798 and 798A WIC Close Out Reports have been maintained with all supporting documentation from FSF. This information is stored on the WIC shared drive and in hard copy as part of the monthly and closeout documentation.

Anticipated Completion Date: Immediately.

Department of Health and Social Services
Division of Public Health
Reference Number: 11-DPH-03*
Program: Immunization Cluster (93.268, S-93.712)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Special Tests and Provisions (Control, Accountability, and Safeguarding of Vaccine)

Condition:

During our review of the control, accountability, and safeguarding of vaccine compliance requirements, we noted that none of the 21 site visits we reviewed included an examination of inventory records at the provider's office to ensure proper recording of receipt, transfer, and usage of vaccine. As such, we were unable to determine whether there is proper control, accountability, and safeguarding of vaccine at provider sites.

Criteria:

Effective control and accountability must be maintained for all vaccine under the VFC program. Vaccine must be adequately safeguarded and used solely for authorized purposes (42 USC 1396s). This includes administration only to VFC program-eligible children, as defined in 42 USC 1396s (b) (2) (A) (i) through (A) (iv), regardless of the child's parent's ability to pay (42 USC 1396s(c) (2) (C) (iii)).

Cause:

The program followed CDC guidance in the program operations guide when determining the procedures provided to the Texas Medical Foundation (TMF) and, as a result, did not require the examination of inventory records as required by federal regulations.

Effect:

The program is not monitoring the providers control over the vaccine inventory.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend the program's policies and procedures, and if necessary, the contract between the State and TMF be amended to ensure that inventory records are examined during site visits to ensure the proper recording of receipt, transfer, and usage of vaccine.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

* Repeat finding from prior year's audit

Corrective Action Plan:

During the last Single Audit covering the period July1, 2009 – June 30, 2010, there were no specific requirements within the CDC Program Operation Guide to examine provider inventory records. The CDC implemented the requirement in January 2011. On March 2, 2011, subsequent to the January 2011 requirement, DPH Immunization Program developed and implemented a policy to address the monitoring, review and documentation of provider inventory records. Since that time, this activity has been part of the required elements of provider monitoring site assessments.

Anticipated Completion Date: March 2, 2011

Department of Health and Social Services
Division of Public Health
Reference Number: 11-DPH-04*
Program: Immunization Cluster (93.268, S-93.712)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Special Tests and Provisions (Record of Immunization)

Condition:

During our review of the Record of Immunization compliance requirements, we noted that for 12 out of 21 Texas Medical Foundation (TMF) site visit reports, the provider was not in compliance with the requirements of Record of Immunization. Per discussion with the contract administrator, only verbal discussions were held with the providers to inform them that sufficient record of immunization requirements were not met. As no formal documentation of follow-up procedures was maintained, we were unable to determine if sufficient follow-up action was taken, as required by federal requirements.

Criteria:

A record of vaccine administered shall be made in each person's permanent medical record (or in a permanent office log or file to which a legal representative shall have access upon request) (42 USC 300aa-25) which includes:

a. Date of administration of the vaccine;

b. Vaccine manufacturer and lot number of the vaccine; and

c. Name and address and, if appropriate, the title of health care provider administering the vaccine

Cause:

Based on guidance from the CDC indicating that immunization records are not high priority, the procedures provided to the Texas Medical Foundation (TMF) by the Department of Public Health did not stipulate that more detailed follow up was required for this type of non-compliance.

Effect:

The program is not in compliance with federal regulations.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend the program's policies and procedures, and if necessary, the contract between the State and TMF be amended to ensure that written documentation exists of any follow up actions regarding noncompliance with federal regulations.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

* Repeat finding from prior year's audit

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

In March 2011, the DPH Immunization Program developed a handout outlining the requirements for documenting the administration of immunizations. Since that time, the contractor who conducts monitoring of this program (TMF Health Quality Institute) has been required to distribute a copy of the handout (that outlines the documentation of vaccine administration) to each provider and review it with them.

In addition, the DPH Immunization Program has developed a feedback form to summarize provider site assessment visits. The contractor completes the feedback form, which will document the provisions of and review of the requirements for documenting the administration of vaccines. The contractor submits a copy of the feedback form to the Immunization Program for each site assessment conducted.

The Immunization Program reviews the feedback forms and communicates any required corrective action to the providers. The information is also sent to the CDC and maintained in their database.

The developed handout and feedback form are available for review for the auditors.

Anticipated Completion Date: March 2011

Department of Health and Social Services
Division of Public Health
Reference Number: 11-DPH-05*
Program: Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Condition:

During our testwork over time and effort reporting, we noted that for 1 out of 65 employees tested, time was split between the Drinking Water State Revolving Fund and another federal program; however, an appropriate time and effort report was not obtained.

Criteria:

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3). Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4). Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5).

Cause:

The Program does not have a process to properly document in time and effort report the employee's split time on the federal grants.

Effect:

Salaries and benefits of employees who work on federal programs are being charged to federal grants without proper documentation.

* Repeat finding from prior year's audit

Questioned Costs:

Questioned costs are $1,280, which represents the salary paid to the employee for the payroll period tested. The total expenditures for the 65 employees tested in our sample were $70,732, and the total expenditure population for the employees subject to our sampling was $822,579 for the fiscal year ended June 30, 2011.

Recommendation:

We recommend that the Program properly maintain effort report for each employee's time allocated between grants.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

An appropriate time and effort report was not maintained to support an employee who was split coded between two federal programs for the quarter in question. This was an oversight in that the employee was transitioning between the two federal programs. As part of the transition the employee did work on both programs during that quarter and is now being properly charged 100% to one federal program.

Anticipated Completion Date: Immediately.

Department of Health and Social Services
Division of State Service Centers
Reference Number: 11-SSC-01*
Program: Low-Income Home Energy Assistance Program (93.568)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Allowable Costs, Subrecipient Monitoring

Condition:

The Division's policy is to perform a review of expenditure reimbursement requests submitted from the subrecipients to meet the requirements noted in the compliance supplement. The prior year audit found the Division did not review or maintain sufficient evidence with the invoice to ensure the expenditures were in accordance with the applicable federal regulations. We found for 7 out of the 65 expenditures selected for testwork for fiscal year 2011 there was evidence of the Division's review; however; the Division did not review or maintain sufficient evidence with the invoice to ensure the expenditures were in accordance with the applicable federal regulations. We note that the Division implemented a corrective action plan effective January 2011 to require their subrecipients to submit sufficient supporting documentation with their invoices. The 7 expenditures without sufficient supporting documentation with the invoice were all dated prior to the January 2011 corrective action. The 7 expenditures totaled $1,021,549 out of the $7,675,828 sampled. The total expenditure population was $12,724,456.

We also note that LIHEAP performed monitoring procedures during the year over the claimants receiving LIHEAP funding to ensure they were eligible for services and the benefit amount was calculated correctly. We note out of the 674 eligibility files selected and tested by the LIHEAP Program, 5 cases had the eligibility determination calculated to be incorrect with the total net amount paid to the claimants to be immaterial to the Program.

Criteria:

U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part:

The auditee shall:

b) Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and provision of contracts or grant agreements that could have a material effect on each of its programs.

c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its federal programs.

U.S. Office of Management and Budget Circular A-87, Cost Principle for State, Local and Indian Tribal Government (2 CFR Part 225) Appendix A, Section C, Basic Guidelines, state in part:

1. Factors affecting allowability of costs. To be allowable under Federal awards, cost must meet the following general criteria:

   a. be allocable to Federal awards under the provision of this circular…

* Repeat finding from prior year's audit

j. be adequately documented

In addition, allowable costs under the grant are limited to:

1. Costs used to assist eligible households to meet the costs of home energy, i.e., heating or cooling their residences (42 USC 8621(a) and 8624(b)(1)). 8621(a).
2. Costs used to intervene in energy-related crisis situations, as defined by the grantee (42 USC 8623(c) and 8624(b)(1)).
3. Costs used to conduct outreach activities (42 USC 8624(b)(1)).
4. Costs used to provide low-cost residential weatherization and other costs-effective energy-related home repair (42 USC 8624(B)(1)).
5. Costs used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance, including needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)).
6. Costs used to identify, develop, and demonstrate leveraging programs (45 CFR section 96.87(c)).
7. No costs may be for the purchase or improvement of land, or the purchase, construction, or permanent improvement (other than low-cost residential weatherization or other energy-related home repairs) of any building or other facility (42 USC 8628).
8. Leveraging incentive awards must be used to increase or maintain heating, cooling, energy crisis, and weatherization benefits for low-income persons (45 CFR section 96.87(j)).
9. Leveraging incentive award funds may not be used for planning, developing, or administering the LIHEAP Program (45 CFR section 96.78(j)).
10. LIHEAP grantees may use some of all of the rules applicable to the Department of Energy's Weatherization Assistance for Low-Income Persons program (CFDA 81.042) for their LIHEAP funds spent on Weatherization (42 USC 8624 (c)(1)(D)).

Cause:

The Division was in process of implementing new policies and procedures pertaining to the review of program expenditures incurred by the subrecipients prior to reimbursement given that the corrective action date had not been implemented yet for the new fiscal year.

Effect:

The Division did not fulfill its responsibilities related to allowable costs; therefore program expenditures may be spent on unallowable activities.

Questioned Costs:

Seven samples did not have proper support which totaled $1,021,549.

Recommendation:

We recommend that the Division continue to enhance its current policies and procedures over subrecipient reimbursements of allowable costs and subrecipient monitoring to ensure that its subrecipients remit adequate documentation to allow the Division to ensure federal allowability requirements have been met.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

As stated in the audit finding, the Division implemented a corrective action plan effective January 2011 to require sub-recipients to submit sufficient supporting documentation with their invoices. The 7 expenditures without sufficient supporting documentation with the invoice were all dated prior to the January 2011 corrective action plan. In addition, we will obtain and review the supporting documentation for the 7 expenditures totaling $1,021,549 to verify they were for allowable activities.

Anticipated Completion Date: March 30, 2012

Department of Health and Social Services
Division of State Service Centers
Reference Number: 11-SSC-02
Program: Low-Income Home Energy Assistance Program (93.568)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Reporting (Special Reporting)

Condition:

Some attributes/components of the LIHEAP Household Annual Report for the period October 1, 2009 – September 30, 2010 could not be agreed to underlying supporting documentation and/or supporting documentation could not be provided or was not sufficient for our purposes for some of the attributes/components including:

- Heating: 'Under 75% Poverty', 'Age 2 years or under', and 'Age 3 years thru 5 years' data does not agree to support while 'Disabled' and 'Age 5 years or under' data could not be provided
- Winter/Year Round Crises: '5 Years or Under' does not agree to support
- Weatherization data for 'LIHEAP Assisted Households' support could not be provided.
- For the 'All applicant households regardless if assisted' section of the Report, data could not be provided or data to be provided was not sufficient underlying support.

Criteria:

The LIHEAP Program is required to submit the Annual Report on Households Assisted by LIHEAP (OMB No. 0970-0060). As part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each component (heating, cooling, crisis, and weatherization), and (2) the number of households served that contained young children, elderly, or persons with disabilities. Territories with annual allotments of less than $200,000 and Indian tribes are required to report only on the number of households served for each component (42 USC 8629; 45 CFR section 96.82):

Key Line Items –

(1) Section 1 – LIHEAP Assisted Households

(2) Section 2 – LIHEAP Applicant Households

Cause:

The report uses various underlying supporting documentation and there were some errors when consolidating the different data elements together for the report. In addition, some of the support could not be located or the underlying data elements of the support had not been provided to LIHEAP by Catholic Charities at the time the report was created and submitted.

Effect:

The LIHEAP Program is reporting incorrect data to the Federal Government in terms of applicant information.

Questioned Costs:

There are no questioned costs associated with this finding as the data represents applicant data and not expenditures.

Recommendation:

We recommend that the LIHEAP Program enforce policies and procedures that the review process of reports includes ensuring reports agree to underlying support. We also recommend that LIHEAP ensure all underlying elements that are utilized to create the report are provided by Catholic Charities at the time the report is created.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

We will evaluate how household data is gathered, maintained and reported. We will make necessary improvements in operating procedures to ensure household data is properly accumulated, summarized, and reported. We will maintain documentation to support household data presented on the LIHEAP Household Report.

Anticipated Completion Date: April 30, 2012

Department of Health and Social Services
Division of State Service Centers
Reference Number: 11-SSC-03
Program: Low-Income Home Energy Assistance Program (93.568)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Reporting, Period of Availability

Condition:

The Division's internal auditor found LIHEAP expenditures obligated in FFY 2011 were incorrectly charged to the FFY 2010 grant. An analysis of the expenditures, after adjustments for charging expenditures to the correct FFY grant, revealed the Division had an unobligated balance of $4.5 million in the FFY 2010 grant as of 9/30/10. According to the LIHEAP regulations, only 10% of funds allotted for the FFY 2010 grant allowing $1.7 million to be carried over for use in FFY 2011 as well as $280k that was awarded to the Program late in the year. As a result, $2.61 million in FFY 2010 grant funds were not available for use in FFY2011. The FFY 2010 Carryover and Reallotment Report submitted by the Division to HHS on 8/1/10 showed the Reallotment amount as $0 when the amount reported should have been $2.61 million.

Criteria:

Reporting
Grantees must submit a report no later than August 1 indicating the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year, and must be reported (42 USC 8626).

Period of Availability
At least 90 percent of the LIHEAP block grant funds payable to the grantee must be obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or ―carried over‖) for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to ACF. There are no limits on the time period for expenditure of funds (42 USC 8626).

Leveraging incentive award funds and REACH funds must be obligated in the year in which they are awarded or the following fiscal year, without regard to the carryover limit. However, they may not be added to the base on which the carryover limit is calculated (45 CFR sections 96.87(j)(1) and (k)). Funds not obligated within these time periods must be returned to ACF (45 CFR section 96.87(k)).

LIHEAP emergency contingency funds are generally subject to the same obligation and expenditure requirements applicable to the LIHEAP block grant funds, but the contingency award letter should be reviewed to see if different requirements were imposed.

Cause:

The LIHEAP regulations regarding "Time period for obligation and expenditure of grant funds" were interpreted by the Division's grant program management as being obligated with the submission of the State Plan detailing planned expenditures. State fiscal policy, however, determines obligations to occur when a purchase order has been established to encumber funds. As a result of the misinterpretation,

LIHEAP obligations and expenditures were not assigned to the proper FFY grant period in accordance with LIHEAP period of availability criteria.

Effect:

The LIHEAP Program did not obligate 90% of the FY10 grant as required during the first fiscal year and thus must return the unobligated amount to the ACF.

Questioned Costs:

There are no questioned costs associated with this finding, only a reduction in available funding resources.

Recommendation:

We recommend that the LIHEAP Program ensure expenditures are being coded in the system to the correct grant and that reports submitted agree to first state financial system data before being submitted. We also recommend that the LIHEAP Program ensure they are obligating grant award funds by the required time frames permitted.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

Corrective action already taken includes (1) preparing spreadsheets that schedule LIHEAP obligations for the period 10/1/2008 through 12/31/2011that reconcile with the State's accounting records; (2) allocating the obligations on the spreadsheets to the proper federal fiscal year; (3) calculating the federal fiscal year end unobligated balance, carryover amount, and reallotment amounts for federal fiscal years 2008, 2009, 2010, and 2011; and (4) recoding obligations in the current State Accounting System to the proper federal fiscal year accounts. We informed the top federal LIHEAP officials at the Office of Community Services Division of Energy Assistance, Administration for Children and Families, DHHS on December 7, 2011 of the issue of carrying over unobligated LIHEAP awards to subsequent FFY's in excess of the 10% carry over limit. We met with the federal LIHEAP officials several times to (1) review with them how obligations should have been charged to the proper FFY grant awards; (2) review with them and adjust our spreadsheets described above; (3) obtain their concurrence on the amount of unobligated funds that should be deobligated; and (4) discuss with them how past Federal Financial Reports and Carryover and Reallotment Reports should be corrected and resubmitted to resolve this issue. Corrective action in progress includes preparing and submitting corrected Federal Financial Reports and Carryover and Reallotment Reports.

In addition, LIHEAP Program staff will be trained on how to prepare spending plans and Carryover and Reallotment Reports that comply with the LIHEAP regulations. Fiscal staff have been trained on how to set up grant projects in the State's new accounting system, First State Financial, so LIHEAP obligations will be charged to the proper FFY, carryover funds will not exceed the 10% limit, and Federal Financial Reports will reflect the proper federal expenditures and unobligated balance.

Anticipated Completion Date: March 30, 2012

Department of Health and Social Services
Division of State Service Centers
Reference Number: 11-SSC-04
Program: Low-Income Home Energy Assistance Program (93.568)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Reporting (Financial Reporting)

Condition:

The original signed SF-425 Reports for federal fiscal year 2009 and 2010 for LIHEAP awards could not be provided and as such there was no evidence of management's review. Further, while federal fiscal year 2009 LIHEAP awards had both Block Grants and Emergency Contingency Grants during the year, only one report was submitted combining both grant types on one report. Further, cash receipts per the report were $18,736,443.90 while FSF reports showed $18,214,260.54 for cash receipts as of 9/30/10 resulting in an over reported amount of $522,183.36. The Federal fiscal year 2010 for LIHEAP awards had block grants, leveraging incentive grants, and emergency contingency grants, however, only one report was submitted for the block grant fund.

Criteria:

The LIHEAP Program is required to submit the SF-269A, Financial Status Report, annually for the period October 1, 2009 – September 30, 2010 for each type of grant award received.

In addition, per Transmittal No. LIHEAP-AT-2011-02, separate SF-269A reports must be filed for block grant funds, emergency contingency funds, leveraging incentive funds, and Residential Energy Assistance Challenge Program (REACH) funds that are awarded each year to LIHEAP grantees.

Cause:

LIHEAP Personnel were learning to use the new First State Financial general ledger system to support and create the reports. In addition, there was a lack of communication between Program personnel who receive updates from the Fed of LIHEAP reporting requirements and the fiscal personnel who are required to submit the reports.

Effect:

The LIHEAP Program is reporting incorrect amounts to the Federal Government. In addition, the LIHEAP Program is not reporting the correct amount of expenditures for block grant funds, emergency contingency funds, and leveraging incentive funds which could affect the amount of funds given in subsequent years.

Questioned Costs:

There are no questioned costs associated with this finding, only inaccurate financial reports.

Recommendation:

We recommend that the LIHEAP Program enforce policies and procedures that all reports need to be reviewed, signed and kept for record keeping and the review process includes ensuring reports agree to FSF support. We also recommend that there is more communication between program and fiscal personnel during the year of changes in requirements.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

The Division of State Service Centers is working with the federal Office of Grants Management, Division of Mandatory Grants in submitting corrected LIHEAP federal financial reports for the federal fiscal years 2008 through 2011. See corrective action for finding, 11-SSC-03 Reporting POA Current Year Findings, for further information.

Anticipated Completion Date: February 29, 2012

Department of Labor
Division of Vocational Rehabilitation
Reference Number: 11-DOL-01*
Program: Vocational Rehabilitation Cluster (84.126, S-84.390)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Eligibility

Condition:

We note that 3 out of 65 client eligibility determinations were not approved within the required 60 day timeframe. While 1 selection had documentation of an approved extension for 30 days, eligibility was still not determined in the extended time allowed with eligibility being determined 33 days after the 30 day extension allowed. The other two selections were not approved in the 60 day timeframe and had no approved extensions. One selection was approved 20 days after the 60 day time frame allowed while the other selection was made 191 days after the 60 day timeframe allowed.

In addition, we note that for 3 out of 65 clients selected for testing, there was no evidence of proper review of the Certificate of Determination. Review should be evidenced by the dated signature of the assigned counselor and the Certificate of Determination must be included in the service record.

Criteria:

1. Eligibility for Individuals

According to 29 USC 722(a)(6), the State VR Agency must determine whether an individual is eligible for VR services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless:

(a) Exceptional and unforeseen circumstances beyond the control of the State VR agency preclude making an eligibility determination within 60 days and the State agency and the individual agrees to a specific extension of time; or

(b) The designated unit is exploring an individual's abilities, capabilities, and capacity to perform in work situations under paragraph (2) (b).

2. Certifying Eligibility

According to paragraph 5.2.1 of the DVR Eligibility Manual, The Certification of Determination (Form IWRP-2/IPE-2) must be dated and signed by the Counselor. This form is part of the IPE and must be appropriately included in the client file.

Cause:

There was a large increase of over 1,200 more employment development plans being developed in fiscal year 2011 compared to 2010 and more than 600 applicants implementing their plans this year compared to 2010. While the sheer volume of cases increased the staffing has stayed relatively the same with the number of cases case managers are in charge increasing by more than +50 cases per manager from 2011 to 2010.

* Repeat finding from prior year's audit

Effect:

The Department of Labor (DOL) could potentially not be providing services to eligible clients within the timeframe required by federal regulations. Also, without a formal management review and sign-off DOL could inappropriately document the Certificate of Determination.

Questioned Costs:

There were no questioned costs as each of these individuals was eventually deemed eligible.

Recommendation:

We recommend that the DOL continue to utilize its resources to monitor the status of eligibility determinations with aging reports and a tickler system to ensure they are made within the required 60-day timeframe and client files are properly reviewed and dated, unless exceptions granted by federal regulations occur and are properly documented in the client file. In addition, we recommend that the DOL reinforce both State and Federal requirements to case managers working on case files.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

1. DVR Director and Deputy Director will address this meeting with District Administrators. District Administrators will be directed to review the aging report on a monthly basis and follow up with individual cases that are nearing 60 day eligibility deadline.

2. DVR will provide training to counselors on eligibility determination and best practices in case management.

3. DVR Deputy Director will also spot check aging report, identify cases near 60 deadline, and follow up with individual counselors and supervisors

Anticipated Completion Date:

1. completed on 1/18/12 (will follow up at subsequent meetings through 2012;
2. training will be completed by 9/30/12;
3. initiated on 1/18/12, ongoing through 2012

Department of Labor
Division of Employment & Training
Reference Number: 11-DOL-02*
Program: Workforce Improvement Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Eligibility

Condition:

The Program's Policy is that all Employment Development Plans (EDP) must be reviewed by management although the audit policy at the time did not require a signature on the face of document. We also note that eligibility checklist accompany each client file and detail eligibility criteria that must be met but are only used as a management tool and are not required per WIA's policy. We note that in the prior year, there was a finding for EDP's and eligibility checklists not having evidence of management review. Per review of the case files for the 2011 audit, we noted the following:

- For 6 of the 65 EDPs reviewed, although the clients were eligible there was no evidence of proper review by management, which should be evidenced by a signature on the face of the documents.
- For 1 of the 65 files selected, the participant was determined eligible despite failing to provide evidence of citizenship and eligibility to work in the form of a copy of the applicant's social security card which is required per Eligibility Requirements.

We note that for the 6 EDP's that were not signed, the service dates occurred prior to the issuance of the prior year finding and thus the WIA Program had not put into place a corrective plan as of those service dates with the last one occurring January 2011.

Criteria:

Participants receiving eligibility of WIA services must meet the following requirements:

a. All Programs:

   Selective Service - No participant may be in violation of section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under that Act (29 USC 2939(h)).

b. All Subtitle B Statewide and Local Programs
   1. An adult must be 18 years of age or older.
   2. A dislocated worker means an individual who meets the definition in 29 USC 2801(9).
   3. A dislocated homemaker means an individual who meets the definition in 29 USC 2801 (10).
   4. Before receiving training services, an adult or dislocated worker must have received at least one intensive service, been determined to be unable to obtain or retain employment through intensive services, and met all of the following requirements (20 CFR sections 663.240 and 663.310):
      a. Had an interview, evaluation, or assessment and determined to be in need of training services and have the skills and qualifications to successfully complete the selected training program.
      b. Selected a training service linked to the employment opportunities.

* Repeat finding from prior year's audit

c. Was unable to obtain grant assistance from other sources, including other Federal programs, to pay the costs of the training.

c. Subtitle B Youth Activities

A person is eligible to receive services under Youth Activities if they are between the ages of 14 and 21 at the time of enrollment (20 CFR section 664.200) and demonstrate at least one of the following barriers to employment: deficient in basic literacy skills; a school dropout; homeless; a runaway; a foster child; pregnant or parenting; offender; or an individual who requires additional assistance to complete an educational program, or to secure and hold employment (20 CFR sections 664.200, .205, and .210).

Age eligibility for youth services funded by ARRA is increased from 21 to 24 years of age. (ARRA Title VIII(2), 123 Stat 173).

WIA is required to determine eligibility for all participants based on the criteria above, in addition to correctly calculating the benefit to be paid to the participant and ensuring the benefit is discontinued with eligibility expires. Furthermore, in accordance with State Policy an Employment Development Plan should be completed and reviewed for eligible participants.

Cause:

The Division was in process of implementing new and reinforcing old policies and procedures pertaining to the review of EPD's given that the corrective action date had not been implemented yet for the new fiscal year.

Effect:

Claimants who were not eligible under WIA criteria may have inappropriately received benefits from the Program.

Questioned Costs:

There are no questioned costs based upon the fact that no expenditures were incurred during the period 7/1/10 – 6/30/11 for the recipient who was not determined to be eligible.

Recommendation:

The WIA Program should continue to reinforce policies and procedures relating to management review of EDP's including the requirement of management's signature on the face of the EDP.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DET agrees to revise our policy and procedures to include a supervisor signature on the document. This will be completed March 1, 2012.

Anticipated Completion Date: March 1, 2012

Department of Labor
Division of Employment & Training
Reference Number: 11-DOL-03*
Program: Workforce Improvement Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278)
Type of Finding: Noncompliance, Material Weakness
Compliance Requirement(s): Subrecipient Monitoring

Condition:

For 1 out of 5 subrecipients selected for testing, no monitoring was performed by the WIA Program during FY11. For the remaining four subrecipients, three of the monitoring reports that are utilized to monitor financial status of the subrecipients had not been reviewed by management. As had been done in prior years, the Internal Auditor who performs the monitoring visit discussed with the supervisor results of the monitoring visits, but there is no formal documentation showing they reviewed the monitoring reports. We note that all three monitoring reports occurred before or near when the corrective action plan from the finding last year was being put into place, so old policies and procedures were still being followed. The subrecipient not monitored during the year had expenditures of $84,185.

Criteria:

Award Identification – At the time of the subaward, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements. For ARRA subawards, identifying to the subrecipient the amount of ARRA funds provided by the subaward and advising the subrecipient of the requirement to identify ARRA funds in the Schedule of Expenditures of Federal Awards (SEFA) and the SF-SAC.

During-the-Award Monitoring – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Subrecipient Audits – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Central Contractor Registration - For ARRA subawards, identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a DUNS number, and

* Repeat finding from prior year's audit

maintaining the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)). This requirement pertains to the ability to report pursuant to Section 1512 of ARRA and is not a pre-award eligibility requirement. Note that subrecipients of non-ARRA funds are not required to register in CCR prior to or after award.

Cause:

The Program was in still in process of implementing new procedures and policies over subrecipient monitoring that did not go into place until after the new fiscal year began. As such, the Program was still following prior established policies and procedures resulting in not having adequate controls in place to ensure it monitors subrecipients in accordance with the criteria noted above or maintain proper documentation to support they effectively monitored subrecipients.

Effect:

The Program is not fulfilling its subrecipient monitoring responsibilities and 17 subrecipients expending $2,008,475 in the fiscal year could potentially not be meeting federal requirements.

Questioned Costs:

Questioned costs for the 1 subrecipient not monitored are unknown.

Recommendation:

The Department of Labor should adhere to recently updated policies and procedures to ensure that monitoring reports are appropriately being reviewed and the minimum percentage of subrecipients are being monitored as approved through prior year action plans.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DET agrees to adhere to the revised policies and procedures put into effect November 15, 2011.

Anticipated Completion Date: Completed

Department of Labor
Division of Employment & Training
Reference Number: 11-DOL-04*
Program: Workforce Improvement Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Reporting

Condition:

Based on the review of the financial reports required to be submitted we noted the following issues:

- While three out of 48 9130 Reports tested were properly authorized and reviewed, the reports did not agree to supporting documentation including the general ledger. The first 9130 Report incorrectly under reported administrative expenses by $44,293. The second 9130 Report incorrectly under reported the Federal Share of Expenditures by $20 while the third 9130 Report incorrect overstated the Federal Share of Expenditures by $20.
- The annual 9091 Report was properly authorized and reviewed; however, the report did not agree to supporting documentation including First State Financials (FSF) support. The total variance was $2,988.

Criteria:

The Delaware Workforce Investment Act Program is required to file various reports related to its oversight and compliance over the federal funds it receives from the DOL.

ETA-9130, Financial Report (OMB No. 1205-0461) – All ETA grantees are required to submit quarterly financial reports for each grant award they receive. Reports are required to be prepared using the specific format and instructions for the applicable program(s); in this case, Workforce Investment Act instructions for the following: Statewide Adult; Workforce Statewide Youth; Statewide Dislocated Worker; Local Adult; Local Youth; and Local Dislocated Worker. A separate ETA 9130 is submitted for each of these categories.

ETA-9091,WIA Annual Report (OMB Number 1205-0420) – Sanctions related to State performance or failure to submit these reports timely can result in a total grant reduction of not more than five percent as provided in WIA Section 136 (g)(1)(B).

Cause:

WIA Personnel were trying to get used to and learn FSF and what general ledger system support to use to create the reports.

Effect:

The Program is not properly reporting expenditures to the government which could result in adjustments to future grants received from the U.S Department of Labor.

* Repeat finding from prior year's audit

Questioned Costs:

Three of the 49 reports tested were underreported so there are no questioned costs. The fourth report has questioned costs of $20 as the report was overstated by $20.

Recommendation:

The Program should consider adding an additional level of review to ensure reports are properly presented and agree to supporting documentation.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DET added a second level of review to the current policy on July 1, 2011 and agrees to adhere to this policy.

Anticipated Completion Date: Completed

Department of Labor
Division of Employment & Training
Reference Number: 11-DOL-05
Program: Workforce Improvement Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278)
Type of Finding: Noncompliance, Material Weakness
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Condition:

We noted that payroll funding reconciliations used to reconcile PHRST and Autotime were performed for all four quarters during the fiscal year. While adjustments were made on 'as needed basis' during the year for certain appropriations, the adjustments calculated per the reconciliations have not been recorded to First State Financials although they are required annually per regulations. As such, 49 out of 65 samples tested that required payroll funding adjustments to be booked were not recorded with the net effect being $291. The total adjustment needed to reconcile all four quarter reconciliations is $11,490.

Criteria:

Per Circular A-87, Item #8, Compensation for Personal Services, Section (e):

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Cause:

Payroll funding reconciliations were not made in a timely basis to year end.

Effect:

The Program is not properly reporting payroll expenditures for the year ended June 30, 2011 since the PHRST data has not been updated to account for the adjustments needed during the year.

Questioned Costs:

There are no questioned costs as the federal grant was undercharged.

Recommendation:

The Program should implement procedures and policies regarding payroll funding reconciliations and the corresponding adjustments being reviewed and then adjusted in First State Financials in a timely manner after year end.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DET agrees to implement policies and procedures regarding payroll funding reconciliations ensuring that corresponding adjustments will be reviewed and adjusted in the First State Financial system in a timely manner after year end.

Anticipated Completion Date: June 30, 2012

Department of Labor
Division of Employment & Training
Reference Number: 11-DOL-06*
Program: Workforce Improvement Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Reporting (Section 1512)

Condition:

Per review of the DOL WIA 1512 Reports for subrecipients for the reporting period ended March 31, 2011, we noted the following errors in the subrecipient tabs for the 'Total Sub Award Funds Disbursed' amounts reported:

- - City of Wilmington was erroneously over-reported by $19,727.63.
- - Sussex Technical School District was under reported by $10,237
- - Delaware Technical Community College-Terry Campus was under reported by $630.51
- - Delaware Technical Community College-Terry Campus-Youth was under reported by $7,761.08
- - Delaware Technical Community College-Wilmington/Stanton Campus was under reported by
- $42,548.81
- - Career Team LLC was under reported by $825.19
- - Career Team LLC was under reported by $4,765.53

The net effect of these errors amounts to $47,040.49 of under reported expenditures. We also note that 'Total Federal Amount ARRA Funds Received/Invoices' was over reported per this report by $232,985 ($4,902,787 of ARRA Funds Received/Invoiced was reported and $4,669,802 was reported instead).

The March 31, 2011 Section 1512 Report for NEG Autoworker Reemployment – Dual Enrollment over reported the 'Total Federal Amount ARRA Funds Received/Invoiced" amount by $78,782 ($785,758 of ARRA Funds Received/Invoiced was reported and $706,976 should have been reported).

Criteria:

The Delaware OMB 1512 Reporting Instruction Manual states "Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as "instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity."

A significant reporting error is defined as "instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will my misled or confused by the recipient report in question. "The Prime recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report.

The Delaware OMB 1512 Reporting Instruction Manual states "Data quality (i.e. accuracy, completeness and timely reporting of information) reviews required by the OMB June 22 Guidance are intended to avoid two key data problems – material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted.

* Repeat finding from prior year's audit

Subrecipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and subrecipients should establish internal controls to ensure completeness, accuracy, and timely reporting of all amounts funded by the Recovery Act."

The Compliance Supplement also states that compliance testing of the ARRA reporting requirements shall include only the following key data elements of the 1512 reporting: Recipient Data Elements: Award Number, Award Amount, Total Federal Amount ARRA Funds Received/Invoiced, and Total Federal Amount of ARRA Expenditures.

Cause:

The department was still in process of implemented new policies and procedures over 1512 Reporting based on prior year findings.

Effect:

The March 31, 2011 1512 Reports submitted by DOL, Division of Employment and Training contained significant reporting errors. Continued non-compliance with ARRA reporting requirements could result in termination of the award, reclaiming of funds, and potential punitive actions.

Questioned Costs:

The total reporting errors as of March 31, 2011 were:

- $19,727.63 of subrecipient expenditures which were over-reported on the WIA Youth/Adult/Dislocated Workers Formula 1512 Report.
- Total Federal Amount ARRA Funds Received/Invoiced was over reported by $232,985 for the WIA Youth/Adult/Dislocated Workers Formula Grants.
- Total Federal Amount ARRA Funds Received/Invoiced was over reported by $78,782 for the NEG Autoworker Re-employment Grant.

Recommendation:

We recommend that the DOL, Division of Employment and Training reinforce their policies and procedures over management's review process to ensure that the 1512 Report is free of errors before submission.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DET revised policies and procedures as a result of the FY11 Single Audit findings. We attempted to revise and correct the 6/30/11 report. Our request was denied. USDOL advised us to make all corrections during closeout.

Anticipated Completion Date: February 29, 2012

Department of Labor
Division of Employment & Training
Reference Number: 11-DOL-07
Program: Workforce Improvement Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260, 17.278)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Earmarking

Condition:

The WIA Program maintains spreadsheets for WIA Adult, Dislocated Worker and Youth that detail the various earmarking requirements the programs must meet. The spreadsheets are updated and revised on a quarterly basis during the year when the WIA Program creates the 9130 Reports that must be submitted every quarter to ensure the spreadsheets detail the most recent spending during the quarter. We note that when recalculating the earmarking percentages based on the amounts in the spreadsheets for Adult, Dislocated Worker and Youth Programs, we found that the earmarking percentages had been met for all current year Notice of Obligation awards. However, First State Financials data could not be provided that agreed to the amounts in the spreadsheets. Therefore, we were unable to determine if the amounts on the spreadsheets represent actual expenditures during the year and thus if earmarking percentages were actually met with actual expenditures incurred during the year.

Criteria:

a. Statewide Activities

(1) State Reserve – A State may reserve up to 15 percent of the amounts allotted for Adult, Dislocated Worker, and Youth Activities. The amounts reserved may be combined and expended on activities described in 20 CFR sections 665.200 and .210 without regard to funding source (20 CFR section 667.130).

(2) Administrative Cost Limits – A State may spend up to five percent of the amount allotted for the State's administrative costs (i.e., one-third of the 15 percent State Reserve described in the preceding paragraph) (20 CFR section 667.210). The term ―administrative costs‖ is defined at 20 CFR section 667.220. The funds provided for administrative costs by one of the three funding sources (Adult, Dislocated Worker, and Youth Activities) can be used for administrative costs of the other two sources.

b. Dislocated Worker Activities – Rapid Response

Statewide Rapid Response – The State must reserve for rapid response activities a portion of funds, up to 25 percent, allotted for dislocated workers. The funds are used to plan and deliver services to enable dislocated workers to transition to new employment as quickly as possible, following either a permanent closure or mass layoff, or a natural or other disaster resulting in a mass job relocation (20 CFR section 667.130(b)).

c. Local Areas

(1) Administrative Cost Limits - A local area may expend no more than ten percent of the Adult, Dislocated Worker, and Youth Activities funds allocated to the local area under sections 128(b) and 133(b) of the Act for administrative costs. The funds provided for administrative costs by one

of the three fund sources (Adult, Dislocated Worker, Youth Activities) can be used for administrative costs of the other two sources (20 CFR section 667.210(a)(2)).

(2) Low-Income Youth – A minimum of 95 percent of eligible participants in Youth Activities must meet the criteria of disadvantaged low-income youth as defined in 29 USC 2801(25) (20 CFR section 664.220).

Cause:

The client did not have the proper reports are set up within First State Financials to properly track earmarking requirements that must be met per the compliance supplement.

Effect:

The WIA Program could potentially not be meeting earmarking requirements as required by the Federal Government for their Adult, Dislocated Worker and Youth Programs.

Questioned Costs:

The total questioned costs are undeterminable as we cannot verify the amounts on the spreadsheets to the underlying First State Financials data.

Recommendation:

We recommend that the Program ensure First State Financials is set up in enough detail to allow reports to be printed from the system that can be agreed to earmarking spreadsheets maintained by the agency.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks, DOL Controller

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DET will implement a solution in the First State Financial system to ensure that earmarking is tracked to meet the requirements per the compliance supplement.

Anticipated Completion Date: June 30, 2012

Delaware National Guard
Reference Number: 11-DNG-01*
Program: National Guard Military Operations and Maintenance (O&M) Projects (12.401)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Reporting, Cash Management

Condition:

Based on our review of the 32 reports submitted by the Delaware National Guard for the months of December 2010 and June 2011 for the National Guard O&M Projects program, we noted the federal share requested for reimbursement for schedule K-15-1001 was overstated by $2,117.

Criteria:

Per National Guard Regulation 5-1 (April 2008), Chapter 10, Section 10-5, the Delaware National Guard is required to report actual expenditures, requested for reimbursement, on the Standard Form 270 (SF-270), Financial Status Report, and the Public Voucher for Purchases and Services Other than Personal Form (SF-1034), and to submit these reports with supporting documentation of the amounts expended.

Cause:

The same transaction was included in the reimbursement request for both Schedule L-03-1001 and K-15-1001 and was, therefore, double counted in the calculation of the federal share requested for reimbursement.

Effect:

DNG did not provide proper oversight during the review process for SF-270 reports to ensure that all amounts reported appropriately reconciled to supporting FSF reports.

Questioned Costs:

Questioned costs are $2,117, the amount of overstatement in the federal share requested for reimbursement reported on the SF-1034 and SF-270 December 2010 reports for K-15-1001. The total federal share requested for reimbursement for the 32 reports tested for the months of December 2010 and June 2011 was $3,346,915.

Recommendation:

We recommend that DNG reinforce policies and procedures regarding the review of financial reports to ensure that all amounts included in the financial reports properly reconcile to supporting FSF reports (and that each expenditure is only included in one SF-1034/270 reporting package) prior to submission to the federal government.

Views of Responsible Officials:

Agency Contact Name: Art Caldwell, DNG – State Comptroller

Agency Contact Phone Number: (302) 326-7160

* Repeat finding from prior year's audit

Corrective Action Plan:

A credit for $2,117 was issued on DNG federal reimbursable invoice K-27-1001 dated 10 FEB 2012. The DNG has enhanced its procedures to provide additional oversight regarding the preparation review of its monthly financial reimbursable invoices/reports to ensure that all amounts included in them properly reconcile to supporting First State Financial (FSF) reports, and that each reimbursable expenditure is included in only one SF-1034/270 reporting package, prior to submission to the federal government.

Anticipated Completion Date: February 10, 2012

Delaware National Guard
Reference Number: 11-DNG-02
Program: National Guard Military Operations and Maintenance (O&M) Projects (12.401)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Reporting

Condition:

Based on our review of the 2010 annual report submitted by the Delaware National Guard for the National Guard O&M Projects program, we noted remaining available funds for funding authorized during fiscal years 2009 and 2010 did not agree to supporting documentation, as noted in the table below:

Appropriation (Fund Year)	Amount Reported on submitted Annual Report	Amount that should have been reported	Variance - (Under)/Over reported
40166 (2010)	2,685,396.06	2,658,744.76	26,651.30
40166 (2009)	166,732.82	166,672.90	59.92
40475 (AASF Construction)	11,660,039.65	11,669,795.65	(9,756.00)

Criteria:

Within 90 days of final completion of the project (execution date of the NGB Form 593-R PROJECT INSPECTION REPORT by the State and the USPFO), or upon termination of MCCA, whichever comes earlier, the State shall promptly deliver to NGB a full and final accounting liquidating all payments or reimbursements under the MCCA.

Cause:

DNG did not provide proper oversight during the review process for its annual report to ensure that all amounts reported appropriately reconciled to supporting FSF reports.

Effect:

Amounts reported in annual reports may not reconcile to supporting FSF reports.

Questioned Costs:

There are no questioned costs associated with this finding since the Delaware National Guard was not reimbursed based on the amounts submitted in the annual report.

Recommendation:

We recommend that DNG reinforce policies and procedures regarding the review of annual reports to ensure that all amounts included in the annual reports properly reconcile to supporting FSF reports prior to submission to the federal government.

Views of Responsible Officials:

Agency Contact Name: Art Caldwell, DNG – State Comptroller

Agency Contact Phone Number: (302) 326-7160

Corrective Action Plan:

The DNG State Comptroller's Office has enhanced its policies and procedures regarding the review of annual reports to ensure that all amounts included in the annual reports properly reconcile to supporting FSF reports prior to submittal to the federal government. The $9,756 variance on this $11.6M (MCCA) contract, which was the subject of this audit finding, has been identified and corrected.

Anticipated Completion Date: February 2012

Department of Agriculture
Reference Number: 11-AGR-01
Program: Farm and Ranch Land Protection Program (10.913)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Allowable Costs, Cash Management, Matching, Reporting

Condition:

We noted that DDA completed the federal/state calculation incorrectly for four out of 10 properties selected for test work. In addition, another four properties were determined to be calculated incorrectly from the federal cognizant agency's review of the calculations of federal share and subsequently had the DDA revise the related SF-425 and SF-270 reports accordingly. See detail of all 8 properties below:

Project ID	Federal Share as Originally Calculated	Corrected Federal Share per NRCS	Variance (Correcting Entry Needed)
N-07-12-073D	16,195.91	451,407.50	264,788.41
S-07-11-042M	999,999.99	975,000.00	24,999.99
N-06-11-129E	473,335.05	189,300.00	284,035.05
K-08-10-205H	63,962.13	63,292.13	670.00
N-08-10-130Q	51,895.35	13,065.00	38,830.35
S-08-09-080G	159,331.83	155,206.50	4,125.33
N-06-06-132B	63,625.63	22,000.00	41,625.63
K-99-11-044G	315,477.61	195,547.00	119,930.61
	$2,843,823.50	**$ 2,064,818.13**	**$ 779,005.37**

Criteria:

Per Cooperative Agreement 73.21J2.7.13, III. Obligation of Funds, and Cooperative Agreement 73.21J2.9.13, IV. Obligation of Funds:

The United States' contribution for the acquisition of each conservation easement acquired by the Foundation (DDA) shall be up to but not more than 50% of the appraised fair market value of the conservation easement.

Cause:

The calculation formulas for determining the federal/state allocation for these eight properties was incorrect in the DDA spreadsheet used to support SF-270 requested amounts for reimbursement. The error was not identified through the DDA review process; it was detected via the NRCS review of CPA-230 forms for properties submitted for reimbursement.

Effect:

DDA requests for reimbursement were overstated by $779,005.37 for fiscal year 2011.

Questioned Costs:

Questioned costs are $779,005.37, the total overstatement in the amounts requested for reimbursement. The total federal share requested for the 10 properties tested in our sample was $3,899,447, and the total federal share requested for the population of properties subject to our sampling was $8,636,837 for the fiscal year ended June 30, 2011.

Recommendation:

Management should develop a process for reviewing the calculation of the federal/state allocation of each conservation easement acquired to ensure that the request for Federal funding does not exceed the maximum Federal share defined in the Cooperative Agreements.

Views of Responsible Officials:

Agency Contact Name: Austin Short, Deputy Secretary

Agency Contact Phone Number: (302) 698-4505

Corrective Action Plan:

Preservation Management has created a form which includes all the calculations of federal/state funding to assure Federal funding does not exceed the maximum Federal share defined in the Cooperative Agreements. The form is prepared for each federally funded easement using the Self-contained (Federal) appraisal (which provides the Before/After Market Values) to calculate the Fair Market Value; the form also includes the Purchase Price to assure the cooperating entity's 25% share is properly calculated. The Lead Management of the Preservation Program verifies the information after staff have completed it to provide additional review. The approved form is then presented to accounting staff and the Foundation attorney to complete the settlement and reimbursement processes.

Anticipated Completion Date: Immediately.

Department of Agriculture
Reference Number: 11-AGR-02*
Program: Farm and Ranch Land Protection Program (10.913)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Cash Management

Condition:

In performing our testing of the SF-270 reports filed in fiscal year 2011, we noted that the following information was not included in, or attached to, any of the SF-270 reporting packages that were submitted in fiscal year 2011 to the federal government:

1. Landowner's tax identification number (TIN) or social security number
2. Federal Information Processing Standards (FIPS) number for the State of Delaware Foundation.
3. Bank routing number and account number for desired deposit location.

Criteria:

Per terms of Cooperative Agreement 73.21J2.7.13, dated June 25, 2007, V. Payments:

At a minimum, the following information shall be included in, or attached to, the SF-270:

(1) the name of the State of Delaware or the Foundation;
(2) this cooperative agreement number;
(3) conservation easement number;
(4) landowner name;
(5) landowner's tax identification number (TIN) or social security number;
(6) total amount of dollars paid to the landowner for the conservation easement, specifying the CCC share and the non-CCC share of the conservation easement cost;
(7) term the conservation easement;
(8) acres acquired;
(9) Tax Identification number for the State of Delaware or the Foundation;
(10) Federal Information Processing Standards (FIPS) number for the State of Delaware or the Foundation;
(11) Bank routing number and account number for desired deposit location; and
(12) Copy of OGC approved conservation easement deed;
(13) Current appraisal conducted in accordance with NRCS policies and procedures, UASFLA and USPAP standards;
(14) NRCS CPA-230, Confirmation of Matching Funds; and
(15) The amount paid for the ALTA US title insurance policy (09/28/91) for each easement and
(16) Copy of the ALTA US title insurance policy (09/28/91) for each easement.

Per terms of Cooperative Agreement 73.21J2.9.13, dated July 24, 2009, VII. Payments:

At a minimum, the following information shall be included in, or attached to, the SF-270, prior to Natural Resources Conservation Service (NRCS) accepting the conservation easement and disbursing payment:

(1) the name of the Foundation;
(2) this cooperative agreement number;
(3) conservation easement numbers (if applicable);

* Repeat finding from prior year's audit

(4) landowner name;
(5) landowner's tax identification number (TIN) or social security number;
(6) total amount of dollars paid to the landowner for the conservation easement, specifying the CCC share and the non-CCC share of the conservation easement cost;
(7) term the conservation easement;
(8) acres acquired for each conservation easement;
(9) Tax Identification number (TIN) for the Foundation;
(10) Federal Information Processing Standards (FIPS) number for the State of Delaware or the Foundation;
(11) Bank routing number and account number for desired deposit location; and
(12) Copy of recorded Conservation Easement Deed(s) for each easement;
(13) NRCS CPA-230, Confirmation of Matching Funds; and
(14) Copy of the ALTA US title insurance policy (09/28/91) for each easement.

Cause:

Management oversight regarding the review of information reported in, or attached to, SF-270 forms.

Effect:

The Delaware Department of Agriculture (DDA) did not comply with the terms of their cooperative agreements regarding information required to be submitted in, or attached to, SF-270 forms.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DDA strengthen internal controls to ensure that all appropriate information is reported in, or attached to, SF-270 forms in accordance with Cooperative Agreement terms.

Views of Responsible Officials:

Agency Contact Name: Austin Short, Deputy Secretary

Agency Contact Phone Number: (302) 698-4505

Corrective Action Plan:

The Foundation's current policy is to complete a checklist of the items required per Cooperative Agreement with each request for Federal reimbursements and to create an information package including all of the relevant data to be submitted with each request. It was incorrectly assumed that the information package routinely prepared by the Foundation included the items identified above as missing from the documents and back-up materials submitted to NRCS. Future information packages - beginning with the one submitted with the reimbursement request for the January to March 2012 quarter – will be subjected to an additional round of inspection, to ensure that all information required by the Cooperative Agreement is included.

Anticipated Completion Date: This practice will be implemented with the submission to NRCS of the Federal reimbursement request for the January to March 2012 quarter.

Department of Agriculture
Reference Number: 11-AGR-03*
Program: Farm and Ranch Land Protection Program (10.913)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Reporting

Condition:

In performing our testwork of eight quarterly financial reports (two for each quarter in fiscal year 2011, one for each Cooperative Agreement), we noted that DDA incorrectly reported several key elements in the SF-425 forms submitted during fiscal year 2011, including federal share of unliquidated obligations, total federal share, unobligated balance of federal funds, recipient share of expenditures, remaining recipient share to be provided, cash disbursements, cash on hand, and federal share of expenditures. As a result, the SF-425 reports did not properly reconcile to supporting FSF reports and grant agreements.

The table below details the exceptions noted in our testing of SF-425 reports:

Quarter End Date of Report (Appropriation #)	Line Item	Amount Reported on submitted SF-425	Amount that should have been reported	Variance - (Under)/Over reported
December 31, 2010 (1507)	b. Cash Disbursements	5,967,007.91	5,971,133.23	4,125.32
	c. Cash on Hand	(2,574,020.92)	2,578,146.24	(4,125.32)
	e. Federal share of expenditures	5,967,007.91	5,971,133.23	4,125.32
	g. Total Federal share	5,967,007.91	5,971,133.23	4,125.32
	h. Unobligated balance of Federal Funds	3,407,028.42	3,402,903.10	(4,125.32)
December 31, 2010 (1509)	b. Cash Disbursements	7,831,317.47	8,017,873.70	(186,556.23)
	c. Cash on Hand	(2,280,204.47)	(2,466,760.70)	186,556.23
	e. Federal share of expenditures	7,831,317.47	8,017,873.70	(186,556.23)
	g. Total Federal share	7,831,317.47	8,017,873.70	(186,556.23)
	h. Unobligated balance of Federal Funds	2,626,393.53	2,439,837.30	186,556.23
	j. Recipient share of expenditures	2,905,665.91	2,719,109.68	186,556.23
	k. Remaining Recipient share to be provided	3,851,303.00	4,037,859.23	(186,556.23)

* Repeat finding from prior year's audit

March 31, 2011 (1507)	b. Cash Disbursements	7,627,287.22	7,631,412.54	4,125.32
	c. Cash on Hand	(4,234,300.23)	(4,238,425.55)	(4,125.32)
	e. Federal share of expenditures	7,627,287.22	7,631,412.54	4,125.32
	g. Total Federal share	7,627,287.22	7,631,412.54	4,125.32
	h. Unobligated balance of Federal Funds	1,746,749.11	1,742,623.79	(4,125.32)
March 31, 2011 (1509)	b. Cash Disbursements	9,297,981.01	9,847,837.19	(549,856.18)
	c. Cash on Hand	(3,746,868.01)	(4,296,724.19)	549,856.18
	e. Federal share of expenditures	9,297,981.01	9,847,837.19	549,856.18
	g. Total Federal share	9,297,981.01	9,847,837.19	549,856.18
	h. Unobligated balance of Federal Funds	1,159,729.99	609,873.81	549,856.18
	j. Recipient share of expenditures	4,194,433.70	3,407,967.52	786,466.18
	k. Remaining Recipient share to be provided	2,562,535.21	3,349,001.39	(786,466.18)
June 30, 2011 (1507)	b. Cash Disbursements	7,627,287.22	7,631,412.54	4,125.32
	c. Cash on Hand	(4,234,300.23)	(4,238,425.55)	(4,125.32)
	e. Federal share of expenditures	7,627,287.22	7,631,412.54	4,125.32
	g. Total Federal share	7,627,287.22	7,631,412.54	4,125.32
	h. Unobligated balance of Federal Funds	1,746,749.11	1,742,623.79	(4,125.32)
June 30, 2011 (1509)	b. Cash Disbursements	9,163,058.21	9,712,914.39	(549,856.18)

	c. Cash on Hand	(3,611,945.21)	(4,161,801.39)	549,856.18
	e. Federal share of expenditures	9,163,058.21	9,712,914.39	549,856.18
	g. Total Federal share	9,163,058.21	9,712,914.39	549,856.18
	h. Unobligated balance of Federal Funds	1,294,652.79	744,796.61	549,856.18
	j. Recipient share of expenditures	4,148,216.21	3,361,750.03	786,466.18
	k. Remaining Recipient share to be provided	2,608,752.70	3,395,218.88	(786,466.18)

Criteria:

Federal Financial Report (FFR) (SF-425/SF-425A (OMB No. 0348-0061)). Recipients use the FFR as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10c). References to this report include its applicability as both an expenditure and a cash status report. As indicated above, the Supplement will continue to show the SF-269 as an expenditure report in the list of standard financial reports, in addition to the SF-425, until the transition is complete for all Federal agencies.

Cause:

Management oversight regarding the review of expenditures reported in SF-425 forms.

Effect:

DDA did not accurately report several amounts (as detailed above) in the SF-425 forms for each quarter to the US Department of Agriculture for the periods ended December 31, 2010, March 31, 2011, and June 30, 2011.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DDA strengthen internal controls to ensure that the identification of errors in reporting information occurs prior to submission of the SF-425 Form to the US Department of Agriculture. In addition, we recommend that DDA submit revised SF-425 forms for the quarters ended December 31, 2010, March 31, 2011, and June 30, 2011 to correct the errors noted in each respective report.

Views of Responsible Officials:

Agency Contact Name: Austin Short, Deputy Secretary

Agency Contact Phone Number: (302) 698-4505

Corrective Action Plan:

The Foundation submitted corrected SF-425 reports to address the exceptions noted for the quarters ending on December 31, 2010, March 31, 2011, and June 30, 2011; however, these reports were not submitted until FY12. The corrected reports include adjustments for the variances noted above. The Department will enhance its review process of financial reports going forward to ensure that information reported in SF-425 reports properly reconciles to supporting documentation (FSF reports, etc).

Anticipated Completion Date: Immediately.

Department of Agriculture
Reference Number: 11-AGR-04*
Program: Farm and Ranch Land Protection Program (10.913)
Type of Finding: Scope Limitation, Material Weakness
Compliance Requirement(s): Special Tests and Provisions (Property Monitoring Site Visits)

Condition:

In testing a sample of 10 properties, we noted that required annual monitoring site visits were performed, documented, and submitted to NRCS in accordance with the terms of the Cooperative Agreement.

However, we noted that the Department of Agriculture does not have an effective control in place to ensure that the listing of properties used as a population for property monitoring site visits is a complete, cumulative listing of all properties subject to the monitoring requirement.

Criteria:

Per terms of the Cooperative Agreements for the program, the Department of Agriculture is required to submit annual monitoring reports on the status of each easement to NRCS.

Cause:

Management oversight and a lack of controls in place to identify a completed, cumulative listing of properties that are due for annual property monitoring site visits.

Effect:

The listing of properties used as a population for property monitoring site visits may not be complete. If any properties subject to these monitoring requirements are omitted from this listing, the required annual monitoring visits will not be completed in accordance with the requirements of the Cooperative Agreements.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that the Department develop an internal control process to review the listing of properties subject to monitoring visits to ensure the completeness and accuracy of the listing, and to ensure that all properties have the required annual monitoring visits.

Views of Responsible Officials:

Agency Contact Name: Austin Short, Deputy Secretary

Agency Contact Phone Number: (302) 698-4505

* Repeat finding from prior year's audit

Corrective Action Plan:

Preservation Management has a comprehensive listing of all easements that utilized federal funding. Preservation Management has included an additional step to assure that Foundation staff immediately visit those properties where easements are acquired after a year's monitoring visits (in addition to adding the property to the comprehensive list of federally funded easements). This action may result in some federally acquired easements having two monitoring visits within the initial year after easement acquisition but we believe it is warranted to assure that no property exceeds the 12-month monitoring cycle.

Anticipated Completion Date: Immediately.

Auditors' Response:

We do acknowledge that the Department of Agriculture was able to provide a listing of easements that utilized federal funding, however, as cited in the Condition of the finding above, the Department could not provide evidence that the listing of properties was a complete, cumulative listing of all properties subject to the monitoring requirement.

Department of Transportation
Reference Number: 11-DOT-01*
Program: Federal Transit Cluster (20.500, 20.507, S-20.507)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Special Tests and Provisions (Separate Accountability for ARRA Funding), Reporting (Section 1512)

Condition:

We noted that there is no control in place that ensures the system is configured in such a way to denote what is an ARRA expenditure under the Federal Transit Cluster. The Assistant Director of Finance, notes that while the system (FACTS) will show some expenditures as being ARRA, there is no consistency as to when an ARRA project is denoted as ARRA or not.

Furthermore, DelDOT personnel were unable to provide supporting documentation for amounts listed on the FTC Section 1512 Report. As such, the Federal Transit Cluster Section 1512 Report we were required to test for the Quarter ending March 31, 2011 did not correctly agree to the system data expenditure listing as of 3/31/11. The line item "Total Federal Amount of ARRA Funds Received/Invoiced" disclosed $8,005K. However, the supporting documentation received supported $8,825K, an understatement of $820K on the report.

Criteria:

Special Tests – Separate Accountability for ARRA Funding
When a recipient receives ARRA funding, the Federal Agency must require recipients to agree to maintain records that identify adequately the source and application of ARRA awards. As such, recipients such as DelDOT/DTC who received ARRA funding for the Federal Transit Cluster Program for the FY11, should have a control in place to ensure they are identifying adequately the source and application of ARRA awards.

Depending on the type of organization undergoing audit, the administrative requirements that apply to most programs arise from two sources:

- - A-102 Common Rule
- - OMB Circular A-110

There are also some other administrative compliance requirements contained in regulations that are not of the type covered in the A-102 Common Rule or OMB Circular A-110, that are unique to specific programs. Federal programs excluded from the A-102 Common Rule are listed in Appendix I of the Supplement.

The financial management system must permit the preparation of required reports and tracing of funds adequate to establish that funds were used for authorized purposes and allowable costs. Reporting requirements are contained in the criteria discussed above, and may also be contained in applicable legislation, Federal awarding agency and program regulations, and award terms and conditions.

* Repeat finding from prior year's audit

As provided in 2 CFR section 176.210, Federal agencies must require recipients to

> (1) agree to maintain records that identify adequately the source and application of ARRA awards; (2) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (3) provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC. Additional information, including presentation requirements for the SEFA and SF-SAC, is provided in Appendix VII.

Reporting (Section 1512)

Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter. The Section 1512 Reports must contain specific data elements which must agree to records and data reports and be presented in accordance with ARRA Section 1512 reporting requirements.

Per the Implementation Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009, attachment to M-09-21 memorandum, the following was noted:

Section 2.1 Section 1512 of the Recovery Act requires reports on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009) and for the Federal agency providing those funds to make the reports publicly available no later than the 30th day after the end of that quarter. Aimed at providing transparency into the use of these funds, the recipient reports are required to include the following detailed information:

- Total amount of funds received; and of that, the amount spent on projects and activities;
- A list of those projects and activities funded by name to include:
- Description
- Completion status
- Estimates on jobs created or retained;
- Details on sub-awards 4 and other payments.

Section 4.2 defines a Prime Recipient's responsibilities as:

- Owns recipient data and sub-recipient data
- Initiates appropriate data collection and reporting procedures to ensure that Section 1512 -- reporting requirements are met in a timely and effective manner
- Implements internal control measures as appropriate to ensure accurate and complete information
- Performs data quality reviews for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and working with the designated sub-recipient to address any data quality issues"

Section 4.4 additionally notes Recipients and sub-recipients reporting Section 1512 data into the www.FederalReporting.gov solution must initiate a review of the data both prior to, and following, the formal submission of data. The post-submission review period runs from the 11th day of the reporting month to the 21st day of the reporting month for prime recipients. During this post-submission review period, significant reporting errors or material omissions that are discovered can be corrected using the

www.FederalReporting.gov solution. Specific instructions for submitting new or corrected data will be provided on the www.FederalReporting.gov website. The prime recipients are responsible for reviewing data submitted by sub-recipients. Where a recipient identifies a data quality issue with respect to information submitted by the sub-recipient, the recipient is required to alert the relevant sub-recipient of the nature of the problem identified by the recipient. All corrections by recipients and sub-recipients during this phase of the review must be transmitted by the 21st day of the reporting month.

Cause:

DelDOT/DTC did not have any controls in place to ensure the system (FACTS) denotes what an ARRA expenditure is VS. Non-ARRA Expenditure. As such, there is no consistency when looking up ARRA related projects and expenditures as to if the system will indicate if it is ARRA related or not.

DelDOT personnel were unable to provide supporting documentation for amounts displayed on the Section 1512 Reports. This is a result of the lack of a clear reconciliation of the ARRA Reports to the FACTS ledger.

Effect:

The Federal Transit Cluster could be incorrectly recording total ARRA expenditures on their SEFA and other related required reports such as the Section 1512 Reports.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DelDOT be more consist and put controls in place for separate accountability of ARRA funding such as populating a grant number in FACTS at the project level that would be used only for ARRA expenditures.

We recognize that DelDOT has made system changes that would allow ARRA funds to be indicated as such in the system. However, during fiscal year 2011, these coding changes were not being used for all ARRA funds. We recommend that beginning fiscal year 2012, all ARRA funds are designated as such in the FACTS system.

Furthermore, we recommend that that DelDOT create controls to ensure that Section 1512 Reports are including all expenditures to date and agree to system detail.

Views of Responsible Officials:

Agency Contact Name: Earle Timpson

Agency Contact Phone Number: (302) 760-2678

Corrective Action Plan:

DelDOT's FACTS system was designed to track various apportionments by the appropriation code. Unlike FHWA, when FTA allocated ARRA funding they retained the existing appropriation code for the program in question. As a result, the FTA funding was coded with the same code whether the funds were Delaware's Formula apportionment or ARRA. When this condition was identified, DelDOT took steps to

address this in the FACTS system. We have since added a field that tracks the FTA grant number. When the data in this field is combined with the apportionment code, the reviewer can now differentiate between ARRA and the standard Formula funding. We feel this enhancement put a control in place that will enable DelDOT to ensure that the data generated for future 1512 reports will be accurate and should eliminate the condition that was identified.

Anticipated Completion Date: October 2011 – As per FTA's letter received by DelDOT October 27, 2011, FTA determined that DelDOT has implemented a financial reporting system that generates the required reports which addresses the finding.

Office of Management and Budget
Reference Number: 11-OMB-01
Program: **Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)**
Child and Adult Care Food Program (10.558)
Supplemental Nutrition Program for Women, Infants and Children (10.557)
Federal Transit Cluster (20.500, 20.507, S-20.507)
Highway Planning & Construction Cluster (20.205, S-20.205, 20.219)
Capitalization Grants for Clean Water State Revolving Funds (66.458, S-66.458)
Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)
Title I Grants to Local Educational Agencies (84.010, S-84.389)
Improving Teacher Quality State Grants (84.367)
Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
State Children's Health Insurance Program (93.767)
Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Reporting (Federal Funding Accountability and Transparency Act)

Condition:

Per review of Part 4 of the March 2011 A-133 Compliance Supplement and applicable grant award documents, we identified 12 major federal programs that are subject to the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements as defined in 2 CFR part 170. Per discussions with management of the State, it was noted that the Delaware Office of Management and Budget (OMB) had taken the responsibility for providing the appropriate guidance to the various State agencies as to the applicability of FFATA and related reporting requirements. We obtained and reviewed training materials prepared by OMB and given to the various State agencies.

In reviewing these materials and having discussions with OMB, it was noted that the State's initial interpretation of the FFATA guidance was that the requirements only applied to new federal, non-Recovery Act funded programs that received grant awards with an award date on or after October 1, 2010, and would not apply to any previously existing federal program unless the terms and conditions of the program's grant award specifically included these requirements. This interpretation did not incorporate the part of the FFATA guidance that specifies that the applicability of the requirements is directly related to the establishment of a new Federal Award Identification Number (FAIN) as of October 1, 2010.

In order to determine that applicable subawards were not properly reported by a recipient pursuant to FFATA, we performed an evaluation of compliance with these requirements based on whether the recipients demonstrated a "good faith" effort to comply. As part of performing this evaluation, we inquired of OMB as to the State's use and monitoring of the FFATA Subaward Reporting System website (FSRS.gov) or usaspending.gov for any new FAIN numbers that were uploaded by the federal awarding agency for any of the major programs listed above. We noted FSRS.gov only allows access for one DUNS number per registered user and, therefore, OMB would not have been able to login and monitor any FAIN information for the other DUNS numbers related to the various State agencies. Therefore, the State was unable to provide a complete list of new FAIN numbers effective October 1, 2010, that would have required FFATA reports for the related subawards. Subsequently, it was found that such functionality may exist in usaspending.gov.

Criteria:

Aspects of the Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), that relate to subaward reporting (1) under grants and cooperative agreements were implemented as interim final guidance by OMB in 2 CFR part 170, effective October 1, 2010 (75 FR 55663 et seq., September 14, 2010) and (2) under contracts, by the regulatory agencies responsible for the Federal Acquisition Regulation (FAR) in an interim rule, effective July 8, 2010 (75 FR 39414 et seq., July 8, 2010). The interim final guidance and the interim rule have the same effect as final guidance or a final rule and will remain in effect until superseded by final issuances. If the final issuances include any changes to the interim requirements, they will have new effective dates. The requirements pertain to recipients (i.e., direct recipients) of grants or cooperative agreements who make first-tier subawards and contractors (i.e., prime contractors) that award first-tier subcontracts. There are limited exceptions as specified in 2 CFR part 170 and the FAR. The guidance at 2 CFR part 170 does currently applies only to Federal financial assistance awards in the form of grants and cooperative agreements, e.g., it does not apply to loans made by a Federal agency to a recipient; however, subaward reporting requirement apply to all types of first-tier subawards under a grant or cooperative agreement.

As provided in the 2 CFR part 170 and FAR Subpart 4.14, respectively, Federal agencies are required to include the award term specified in Appendix A to 2 CFR part 170 or the contract clause in FAR 52.204-10, Reporting Executive Compensation and First-Tier Subcontract Awards, as applicable, in awards subject to the Transparency Act.

For grants and cooperative agreements, the effective date is October 1, 2010 for all discretionary and mandatory awards equal to or exceeding $25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date. The FAIN is the unique award number assigned to a particular grant or cooperative agreement by the Federal awarding agency (as opposed to the CFDA number, which pertains to a program generally). In some programs, a new award number is used each year and that new award number is considered a new FAIN. In some programs, where awards are made for a multi-year project, but may be funded in increments, even though a suffix may be added, e.g., -02 or -03 designating the subsequent years of an approved project, this is not considered a new FAIN. Therefore, if the FAIN for an award made in November 2009 was AB-12345 and for an award under the same program made in November 2010 was AB-56789, the latter would be considered a new FAIN. However, if the FAIN for an award made in November 2009 was AB-12345-02 and for an award under the same program made in November 2010 was AB-12345-03, the latter would not be considered a new FAIN.

Once the requirement applies, the recipient must report, for any subaward under that award with a value of $25,000 or more, each obligating action of $25,000 or more in Federal funds. Recipients are not required to report on subawards made on or after October 1, 2010 that use funds awarded prior to that date.

Cause:

There was an initial misinterpretation of the federal definition of new grant award that would be subject to FFATA reporting requirements.

Effect:

There could be FAIN numbers issued by the federal awarding agency to the State of Delaware that did not have the appropriate FFATA reports completed.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that the Delaware OMB provides additional guidance to the various State agencies regarding FFATA implementation, including the specific definition of which awards are subject to the reporting requirements. We also recommend that OMB develop policies and procedures to ensure that all DUNS and/or FAIN numbers applicable to the State are adequately monitored on the FSRS.gov or usaspending.gov websites and that all FAINs are appropriately identified and tracked for FFATA reporting requirements.

Views of Responsible Officials:

Agency Contact Name: Bert Scoglietti, Director of Policy/External Affairs

Agency Contact Phone Number: (302) 739-4204

Corrective Action Plan:

Delaware Office of Management and Budget (OMB) provided FFATA training to state agency personnel between March 17, 2011 and April 7, 2011 based on the interpretation of guidance issued by Federal Office of Management and Budget (OMB) in September 2010. It should be noted that the clarifying March 2011 A-133 Compliance Supplement was not issued by the Federal OMB until June 1, 2011.

Delaware's FFATA implementation requires state agencies, as prime recipients of federal awards, to prepare and submit required FFATA subaward reports to fsrs.gov. Delaware OMB will lead this effort by developing and issuing additional FFATA guidance that fully details requirements for state agencies to file FFATA reports in accordance with the March 2011 A-133 Compliance Supplement and all subsequent guidance issued by Federal OMB. Delaware OMB will also provide additional training to state agency personnel beginning in FY 2012 to fully explain FFATA reporting requirements. This guidance and training will include information regarding the proper procedures for state agencies to determine when a report is to be filed. It is the responsibility of state agency personnel to ensure that FFATA reporting is completed.

Delaware OMB will also identify techniques to extract data from usaspending.gov and fsrs.gov to ensure that state agencies are adhering to the State's policies and procedures regarding FFATA. As part of their monitoring responsibility, Delaware OMB will perform an audit of grants quarterly to ensure FFATA compliance. The sample size of the quarterly audit will be 25 grants.

Anticipated Completion Date: Training, auditing and the issuance of updated guidance will begin in the spring of FY 2012.

Department of Finance
Reference Number: 11-FIN-01
Program: Supplemental Nutrition Program for Women, Infants and Children (10.557)
Unemployment Insurance (17.225, S-17.225)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Cash Management

Condition:

Unemployment Insurance
For five out of eight federal cash draws tested, the requests for reimbursement were made prior to the 10 day composite clearance pattern allowed for Unemployment Insurance as required by the Cash Management Improvement Act Agreement (CMIA). The five draws totaled $1,509,761.90 out of the total cash draws sampled of $1,671,427.39. The total non-benefit drawdown population for FY11 was $12,252,958.

Supplemental Nutrition Program For Women, Infants & Children (WIC)
For five out of sixteen federal cash draws tested, the requests for reimbursement were made prior to the 8 day composite clearance pattern allowed for WIC Vendor Payments as required by the Cash Management Improvement Act Agreement (CMIA). The five draws totaled $1,657,600 out of the total cash draws sampled of $3,165,499. The total drawdown population for FY11 was $16,210,185.

Criteria:

U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 et seq.), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures by prescribed in Treasury in Subpart B of 31 CFR part 205 (Subpart B).

We note that the Unemployment Insurance Program and WIC Program are subject to the CMIA and follow the composite clearance method (10 day clearance pattern for Unemployment Insurance and 8 day clearance pattern for WIC) of when the Program shall request funds after the funds have been paid out for a series of disbursements.

Cause:

The CMIA float customization, which was implemented in conjunction with the State's new accounting system, First State Financials (FSF), was not appropriately configured to correctly tag expenditures subject to the 10 day lag required for the Unemployment Insurance Program and the 8 day lag required for WIC Program. The Unemployment Insurance and the WIC Programs had relied on the system functionality to ensure the draws were performed based on what is allowed per the CMIA Agreement.

Effect:

The Unemployment Insurance Program and WIC Program are requesting funds in a manner which is not in compliance with terms of the CMIA.

Questioned Costs:

Questioned costs for interest earnings on early drawdowns are not determinable.

Recommendation:

We recommend that the programs wait the respective days from when the expenditures are approved and paid in FSF and when they are requested for reimbursement, or that the accounting system configuration is modified to appropriately identify expenditures subject to the CMIA required float.

Views of Responsible Officials:

Agency Contact Name: Kris Knight, Director of Division of Accounting

Agency Contact Phone Number: (302) 672-5501

Corrective Action Plan:

CMIA systematic configuration was corrected in September 2011 prior to the start of the FY11 Single Audit.

Anticipated Completion Date: Completed.

MATRIX OF FINDINGS BY FEDERAL AGENCY

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Matrix of Findings by Federal Agency

Year ended June 30, 2011

Matrix of Findings by Federal Agency

Finding	USDA	DOD	DOL	DOT	EPA	ED	HHS	ALL
Prefix	**10**	**12**	**17**	**20**	**66**	**84**	**93**	
11-DTCC-01						X		
11-ED-01						X		
11-ED-02						X		
11-ED-03	X					X		
11-ED-04						X		
11-ED-05						X		
11-ED-06						X		
11-ED-07						X		
11-ED-08						X		
11-ED-09						X		
11-ED-10	X							
11-ED-11	X							
11-ED-12	X							
11-ED-13	X							
11-DHSS-01	X				X		X	
11-DHSS-02							X	
11-DHSS-03							X	
11-DHSS-04							X	
11-DHSS-05	X						X	
11-DMMA-01							X	
11-DMMA-02							X	
11-DSS-01							X	
11-DSS-02							X	
11-DSS-03	X							
11-DSS-04							X	
11-DSS-05	X							
11-DSS-06							X	
11-DSS-07							X	
11-CSE-01							X	
11-DPH-01					X			
11-DPH-02	X							
11-DPH-03							X	
11-DPH-04							X	

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Matrix of Findings by Federal Agency

Year ended June 30, 2011

Finding	USDA	DOD	DOL	DOT	EPA	ED	HHS	ALL
Prefix	**10**	**12**	**17**	**20**	**66**	**84**	**93**	
11-DPH-05					X			
11-SSC-01							X	
11-SSC-02							X	
11-SSC-03							X	
11-SSC-04							X	
11-DOL-01						X		
11-DOL-02			X					
11-DOL-03			X					
11-DOL-04			X					
11-DOL-05			X					
11-DOL-06			X					
11-DOL-07			X					
11-DNG-01		X						
11-DNG-02		X						
11-AGR-01	X							
11-AGR-02	X							
11-AGR-03	X							
11-AGR-04	X							
11-DOT-01				X				
11-OMB-01	X			X	X	X	X	
11-FIN-01	X		X					

STATE OF DELAWARE

Summary Status of Prior Year Findings

Year ended June 30, 2011

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Delaware Technical and Community College – Wilm/Stanton Campus
Fiscal Year	2009/2010
Reference Number	10-DTC-01
Related Prior Year Findings	
Program Name (CFDA No.)	Student Financial Assistance Cluster 84.007, 84.032, 84.063
Type of Finding	
Compliance Requirement(s)	Return of Title IV Funds
Criteria	When a student withdraws from class, either officially or unofficially, and is set to receive Federal monies the college must perform a Return of Title IV Funds calculation. The amount to be disbursed (returned) is based on the original award to the student multiplied by the percentage of class that they attended.
Condition	During our testwork of Return of Title IV funds for Federal Funds at the Wilmington, Stanton campus, we noted that one of our 15 students sampled totaling $17,884 was underawarded PELL by $43.
Cause	SFA employee erroneously used the wrong amount for the Federal monies available to the student in their calculation. Instead of using $850 PELL award, as based on the students' EFC and COA, the employee used $675 for PELL and $100 for FSEOG or $775.
Effect	Because this student's Return of Title IV calculation was done after the 60% point, the $850 had previously been disbursed. The Return calculation that was done had the student returning $398 instead of $355, the difference of $43 that was returned that should not have been.
Recommendation	We recommend that the campus continue to review its Return of Title IV Fund calculations to ensure that the correct award amounts are being used that match the amounts in BANNER that were paid.
Questioned Costs	The questioned costs represent the underaward of $43.
Agency Contact Name	Debra Troxler, Student Financial Aid Officer
Agency Contact Phone Number	(302) 571-5380
Corrective Action Plan	To avoid this problem in the future, R2T4 calculations will be reviewed by two individuals to ensure that the correct amount of Title IV aid is used when performing calculations.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐

Description of Status	Completed – Immediately.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Delaware Technical and Community College – Owens Campus
Fiscal Year	2009/2010
Reference Number	10-DTC-02
Related Prior Year Findings	
Program Name (CFDA No.)	Student Financial Assistance Cluster 84.007, 84.032, 84.063
Type of Finding	
Compliance Requirement(s)	Return of Title IV Funds
Criteria	When a student withdraws from class, either officially or unofficially, and is set to receive Federal monies the college must perform a Return of Title IV Funds calculation. The amount to be disbursed (returned) is based on the original award to the student multiplied by the percentage of class that they attended.
Condition	During our testwork of Return of Title IV funds for Federal Funds at the Owens campus, we noted that one of our 15 students sampled totaling $16,615 was underawarded PELL by $511.
Cause	When a student is a W1 (withdrawal) status or NS (no show) status their completed semester hours are automatically set to zero in BANNER. Once the Return of Title IV calculation is done it is up to the FAO to go in and change that field so that the student can have the account credited. The FAO did not do this step and so the $511 was never paid.
Effect	Because this step was omitted the system never new to pay anything for the student so a total of $511 was not awarded.
Recommendation	We recommend that the campus review its policies and checklists that it follows when completing a R2T4 calculation so that a step will not be omitted in the future.
Questioned Costs	The questioned costs represent the underaward of $511.
Agency Contact Name	Veronica Oney, Financial Aid Officer
Agency Contact Phone Number	(302) 855-1667
Corrective Action Plan	To prevent reoccurrences to the above finding, a report has been developed to audit this process to ensure aid is accurately disbursed.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐

Description of Status	Completed – Immediately.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Education
Fiscal Year	2010
Reference Number	10-ED-01
Related Prior Year Findings	09-ED-01
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010, S-84.389) Special Education Cluster (84.027, 84.173, S-84.391, S-84.392) Improving Teacher Quality State Grants (84.367)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Allowable Costs (Indirect Costs)
Criteria	To be allowable under federal awards, indirect costs must meet the following general criteria (34 CFR section 76.568). A "restricted" indirect cost rate (RICR) must be used for programs administered by State and local governments and their governmental subrecipients that have a statutory requirement prohibiting the use of Federal funds to supplant non-federal funds. Non-governmental grantees or subgrantees administering such programs have the option of using the RICR, or an indirect cost rate of 8 percent, unless U.S. Department of Education determines that the RICR would be lower. The formula for a restricted indirect cost rate is: RICR = (General management costs + Fixed costs) / (Other expenditures). General management costs are costs of activities that are for the direction and control of the grantee's (or subgrantee's) affairs that are organization wide, such as central accounting services, payroll preparation and personnel management. For State and local governments, the general management indirect costs consist of (1) allocated Statewide Central Service Costs approved by the Department of Health and Human Services in a formal Statewide Cost Allocation Plan (SWCAP) as "Section I" costs and (2) departmental indirect costs. The term "general management" as it applies to departmental indirect costs does not include expenditures limited to one component or operation of the grantee. Specifically excluded from general management costs are the following costs that are reclassified and included in the "other expenditures" denominator: (a) Divisional administration that is limited to one component of the grantee; (b) The governing body of the grantee; (c) Compensation of the chief executive officer of the grantee; (d) Compensation of the chief executive officer of any component of the grantee; and (e) Operation of the immediate offices of these officers.
Condition	As noted in the prior year, the Delaware Department of Education (DOE) has provided the school districts with a template for determining their indirect cost rates. While the template properly excludes the compensation of the chief executive officer (the superintendent), there is no evidence that the operation of the immediate offices of that officer (direct reports) are being properly excluded from general management costs. While we understand the indirect cost template was updated during the last quarter of fiscal year 2010, the majority of indirect cost charges for fiscal year 2010 were still based on the prior year's template.
Cause	The indirect cost rate template being utilized by the school districts for the majority of fiscal year 2010 did not address the need to review and possibly exclude any immediate offices of the superintendent from its indirect cost calculation.
Effect	If there are additional costs that should be excluded from the indirect cost amount then the

	indirect cost rates may be overstated.
Recommendation	We continue to recommend that the DOE review its indirect cost rate template and ensure that all unallowable costs have been properly captured by the school districts and make adjustments to the template or its indirect cost rate instructions, as necessary.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Emily Falcon
Agency Contact Phone Number	(302) 735-4040
Corrective Action Plan	As noted above, a corrected template was distributed to the school districts during 2010. At that time, districts were asked to complete the updated template and any resultant changes to the indirect cost rates were captured. All districts are currently calculating the rate correctly and DOE will ensure that all future documentation distributed to the districts will be compliant with 34 CFR section 76.568.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Completed – July 2010
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Education Brandywine School District Caesar Rodney School District Cape Henlopen School District Christina School District Laurel School District Red Clay School District Woodbridge School District
Fiscal Year	2010
Reference Number	10-ED-02
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010, S-84.389) Special Education Cluster (84.027, 84.173, S-84.391, S-84.392) Improving Teacher Quality State Grants (84.367)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Allowable Costs (Effort Reporting)
Criteria	Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5) Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant

	agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including: • The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results. • The entire time period being sampled. • The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)
Condition	*Department of Education* Based on a sample of 3 payroll expenditures totaling $3,686 for Improving Teacher Quality, all three employees were missing time and effort reports. Total salaries and benefits charged by the Department of Education to the Improving Teacher Quality program amounted to $28,966. *Brandywine School District* Based on a sample of 27 payroll expenditures totaling $37,007, two employees totaling $3,894 charged to Title I, four employees totaling $6,633 charged to the Improving Teacher Quality State Grants program and three employees totaling $7,043 charged to the Special Education program were missing time and effort reports. It also appears that one of those Title I employees should have also been charged to Special Education instead of Title I. In addition, the time and effort reports for one employee totaling $1,908 charged to the Improving Teacher Quality and two employees totaling $2,884 charged to the Special Education program were not signed within 3 months of the actual time being charged and one of those employee's time and effort report percentage did not agree to the actual amount charged. That employee had only 80% of their time charged to Improving Teacher Quality; however, their time and effort report indicated only 50% should have been charged, therefore resulting in an overcharge of $715. Five other time and effort reports charge to Title I totaling $6,006 were not signed. Total salaries and benefits charged by the Brandywine School District to major federal programs amounted to $4,243,740. Furthermore, the district made an expense correction to charge payroll costs of $31,535 to the Special Education program out of the sample of $755,945 in intrastate costs tested, but time and effort reports supporting this correction could not be located. *Caesar Rodney School District* Based on a sample of 14 payroll expenditures totaling $24,012, five employees totaling $5,860 charged to Improving Teacher Quality and two employees totaling $2,920 charged to the Special Education program were missing time and effort reports. Additionally, time and effort reports were signed prior to completion of each applicable period for two employees totaling $4,978 charged to Title I and one employee totaling $1,184 charged to the Special Education program. Total salaries and benefits charged by the Caesar Rodney School District to major federal programs amounted to $2,132,603.

	Cape Henlopen School District Based on a sample of 11 payroll expenditures totaling $20,984, two employees totaling $2,038 charged to Title I and two employees totaling $5,105 charged to the Special Education program were missing a monthly time and effort report because as we were informed, monthly time and effort reports only started being maintained for employees working on multiple programs in March of 2010. Total salaries and benefits charged by the Cape Henlopen School District to major federal programs amounted to $1,326,603. *Christina School District* Based on a sample of 31 payroll expenditures totaling $65,928, the time and effort report for one employee totaling $1,144 charged to the Special Education program was not signed until more than 3 months after the completion of the applicable period. *Laurel School District* Based on a sample of 10 payroll expenditures totaling $17,368, two employees totaling $4,739 charged to Title I, four employees totaling $7,611 charged to the Improving Teacher Quality State Grants program and one employee totaling $3,344 charged to the Special Education program were missing time and effort reports. Total salaries and benefits charged by the Laurel School District to major federal programs amounted to $785,892. *Red Clay School District* Based on a sample of 31 payroll expenditures totaling $61,603, one employee totaling $2,928 charged to Title I was missing a time and effort report. Total salaries and benefits charged by the Red Clay School District to Title I amounted to $2,313,034. *Woodbridge School District* Based on a sample of eight payroll expenditures totaling $13,720, one employee totaling $1,847 charged to Title I, four employees totaling $6,171 charged to Improving Teacher Quality and one employee totaling $2,510 charged to the Special Education program were missing time and effort reports because we were informed that these reports did not start being completed until October 2009. Furthermore, one employee's time and effort report percentage did not agree to the amount actually charged to Title I by $102 (overcharge). Total salaries and benefits charged by the Woodbridge School District to major federal programs amounted to $1,284,949.
Cause	The State Department of Education and the school districts cited above did not maintain proper and timely effort reporting for employees that were partially funded by federal programs, did not obtain semi-annual certifications for employees charged 100% to federal programs, or based their charges to federal programs on estimates and not actual time and effort.
Effect	Salary and related costs allocated to the federal programs are not appropriately supported by semi-annual certifications or properly prepared time and effort reports.
Recommendation	We recommend that the State Department of Education and the above school districts maintain properly prepared and signed personnel activity reports (effort reports) for all employees who work on multiple programs or obtain semi-annual certifications for employees that have been solely engaged in activities supported by one funding source.
Questioned Costs	Known questioned costs amounted to a $102 overcharge to the Title I program and a $715 to Improving Teacher Quality. In addition, the following charges were missing time and effort reports: $20,922 for the Special Education program, $15,466 for the Title I program and $29,961 for the Improving Teacher Quality program.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency Contact Name	Theresa Vendrzyk Kough /Emily Falcon
Agency Contact Phone Number	(302) 857-3390 / (302) 735-4040
Corrective Action Plan	Desk Audit Checklist was created which incorporates Time and Effort reporting. All LEAs (Local Educational Agencies) will be checked for compliance. The DOE Financial Reform Resources will also institute updated procedures to ensure that all DOE staff are completing Time and Effort reporting as appropriate. Additional guidance will be issued to LEAs to ensure that they understand the requirements for compliance.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Additional guidance and procedures are being communicated and implemented by the DOE across all its locations.
Anticipated Completion Date (if not Fully corrected).	October 1, 2012

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Education Laurel School District Woodbridge School District
Fiscal Year	2010
Reference Number	10-ED-03
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010, S-84.389) Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Allowable Costs (Intrastate Costs)
Criteria	To be allowable under federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C): • Be necessary and reasonable for proper and efficient performance and administration of Federal awards. • Be allocable to Federal awards under the provisions of the Circular. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. • Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. • Be adequately documented.
Condition	*Laurel School District* Based on a sample of 6 intrastate transactions selected for testwork totaling $62,417, supporting documentation for one intrastate transaction for $15,287 charged to the Special Education program could not be located. Overall, a sample of 40 intrastate transactions totaling $994,965 were tested for the Special Education Program. *Woodbridge School District* Based on a sample of 7 intrastate transactions selected for testwork totaling $89,469, two intrastate indirect cost transaction charges were based on budgeted indirect amounts instead of the actual direct costs incurred. These indirect budgeted charges amounted to $45,885 for the Title I program and $16,763 for the Special Education program. Overall, a sample of 40 intrastate transactions for both the Title I Program and the Special Education Program totaling $330,501 and $994,965, respectively, were tested.
Cause	
Effect	Costs charged to federal programs were not based on actual charges incurred and or were not supported with appropriate documentation to support their allowability.
Recommendation	We recommend that the school districts cited above implement policies and procedures to ensure that interstate vouchers are based upon actual costs and that appropriate supporting documentation is maintained for all processed transactions.
Questioned Costs	There are $15,287 in questioned costs associated with the one unsupported transaction. Impact of the budgeted transactions at Woodbridge is not known but could be no more than $45,885.
Agency Contact Name	**Laurel School District** Meghan Mitchell

	Woodbridge School District Kevin Carson
Agency Contact Phone Number	**Laurel School District** (302) 875-6100 **Woodbridge School District** (302) 337-7990
Corrective Action Plan	**Laurel School District** The Director of Finance will reinforce the need to ensure all transactions are fully supported and such paperwork is properly maintained and filed properly. **Woodbridge School District** The district will establish guidelines to ensure that indirect costs for its federal programs are based on actual direct costs incurred rather than the budgeted amounts.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Completed – December 2010
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Education School Districts
Fiscal Year	2010
Reference Number	10-ED-04
Related Prior Year Findings	09-ED-04
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010, S-84.389) Special Education Cluster (84.027, 84.173, S-84.391, S-84.392) Improving Teacher Quality State Grants (84.367)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Level of Effort (Maintenance of Effort)
Criteria	A Local Educational Agency (LEA) may receive funds under an applicable program only if the State Educational Agency (SEA) finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from State and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waived by U.S. Department of Education. An LEA's expenditures from State and local funds for free public education include expenditures for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities. They do not include the following expenditures: (a) any expenditures for community services, capital outlay, debt service and supplementary expenses as a result of a Presidentially declared disaster and (b) any expenditures made from funds provided by the Federal government. If an LEA fails to maintain fiscal effort, the SEA must reduce the amount of the allocation of funds under an applicable program in any fiscal year in the exact proportion by which the LEA fails to maintain effort by falling below 90 percent of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the LEA) (Section 9521 of ESEA (20 USC 7901); 34 CFR section 299.5).
Condition	Based on a review of the maintenance of effort (MOE) calculations done for the overall federal programs by the eight school districts we visited, we noted the following items: • The Brandywine School District's Facilities Acquisition amount did not agree to the annual financial statement line item. • The Laurel School District excluded a zero placeholder for its fiscal year 2007 amount and therefore had total expenditures of $2,302,288 instead of $23,002,288. • The Red Clay Consolidated School District's Capital Outlay and Federal Expenditures amounts did not agree to the annual financial statement line item.
Cause	The State Department of Education or school districts have not developed procedures to ensure the accuracy of the MOE calculation being input.
Effect	Based on recalculations, the items noted above did not have an impact on the school districts meeting their MOE requirements; however, if such calculations are not monitored closely any shortfalls may not be identified and addressed on a timely basis.
Recommendation	We recommend that the Delaware Department of Education reinforce to the school districts

	how the MOE template should be completed and develop procedures to ensure that the school districts' MOE calculations have been completed accurately.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Emily Falcon / Theresa Vendrzyk Kough
Agency Contact Phone Number	(302) 735-4040 / (302) 857-3390
Corrective Action Plan	The MOE calculations have been automated to ensure accuracy. All data is now pre-populated from the DOE data warehouse. LEAs must coordinate with DOE to make changes to the data as calculated. DOE Financial Reform Resources staff will ensure that the MOE calculations are done in compliance.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The MOE calculations for each of the school districts has been automated and the DOE is continuing to ensure the calculations have been pre-populated with accurate data.
Anticipated Completion Date (if not Fully corrected).	July 2011

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Education Laurel School District
Fiscal Year	2010
Reference Number	10-ED-05
Related Prior Year Findings	
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies – S-84.389 Special Education Cluster – S-84.391, S-84.392 State Fiscal Stabilization Fund Cluster – S-84.394, S-84.397
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Reporting (Section 1512 ARRA Reporting)
Criteria	Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients no later that the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009). Aimed at providing transparency into the use of these funds, the recipient reports are required to include the following detailed information: • Total amount of funds received; and of that the amount spent on projects and activities; -A list of those projects and activities funded by name to include: -Description -Completion status -Estimates on jobs created or retained; • Details on sub-awards and other payments.
Condition	In connection with our requests to review the Section 1512 Recovery Act reporting and supporting documentation for the $452,556 in reported ARRA expenditures for the quarter ended March 31, 2010, the Laurel School District was unable to provide such information.
Cause	The Laurel School District was unable to locate the supporting documentation corresponding to its March 31, 2010 report filing.
Effect	While we were able to agree that the award numbers and amount reported on the Federal Recovery Act website was in agreement with the award agreement and cumulative expenditures reported in the district's general ledger for the quarter ended March 31, 2010, the supporting documentation was not readily available on-site to support the filing.
Recommendation	We recommend that the Laurel School District maintain all supporting documentation corresponding to each ARRA reporting submission to ensure timely and accurate filing.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Meghan Mitchell
Agency Contact Phone Number	(302) 875-6100
Corrective Action Plan	Because of staff turnover in the finance office, the supporting documentation noted above was not located. While there is no documentation to support that March 31, 2010 ARRA expenditures were properly reported on the Federal Recovery Act website, the Director of Finance will ensure that documentation supporting each quarterly ARRA reporting is properly maintained and filed properly.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐

Description of Status	Completed – Immediately.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Education
Fiscal Year	2010
Reference Number	10-ED-06
Related Prior Year Findings	09-ED-05
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010, S-84.389) Special Education Cluster (84.027, 84.173, S-84.391, S-84.392) Improving Teacher Quality State Grants (84.367)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Reporting
Criteria	The U.S. Department of Education (ED) requires that the State Educational Agency (SEA) file various reports related to its oversight and compliance over the federal funds it receives from the ED. The following reports are required by the ED: *State Per Pupil Expenditure (SPPE) Data* (*OMB No. 1850-0067*) – Each year, a SEA must submit its average State per pupil expenditure (SPPE) data to the National Center for Education Statistics. These SPPE data are used by the ED to make allocations under several Elementary and Secondary Education Act of 1965 (ESEA) programs, including Title I, Part A. *Report of Children and Youth with Disabilities Receiving Special Education Under Part B of the Individuals with Disabilities Act, as amended (OMB Nos. 1820-0030, 1820-0043, 1820-0517, 1820-0521, and 1820-0621)* – Each SEA is required to report to the Secretary an unduplicated count of children with disabilities receiving special education and related services. A SEA must annually review the progress of each Local Educational Agency (LEA) that receives funds under subpart 2 of Part A of Title I to determine whether the LEA made adequate yearly progress as defined by the State. Each SEA must report annually to the Secretary (*OMB No. 1810-0581*), and make certain information widely available within the State. In addition, the SEA must prepare and disseminate an annual State report card that contains, among other things, information on the performance of LEAs regarding adequate yearly progress. The SEA must ensure that each LEA collects the data necessary to prepare its annual report card.
Condition	In connection with our review of the Delaware Department of Education's (DOE) compliance requirements applicable to its reporting to the ED, we performed a review of the DOE's information technology (IT) general controls over the eSchoolPlus systems and the Delaware Student Information System (DELSIS). Based on our review, we noted that in connection with the Department's *Change Management – Limited System Development Lifecycle Procedure Guidance*, the DOE IT department continually implements internally developed applications and purchased software applications without aid of approved policy or procedures for project management. Observations at the DOE and school districts indicate limited adherence to best practices of project management despite committee oversight.
Cause	The DOE IT department has not formalized policies and procedures regarding internally developed or purchased software.

Effect	The lack of formal policies and procedures regarding the above items could result in future problems over data integrity.
Recommendation	The DOE IT department should develop and implement formal policies and procedures to address the items noted above.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Robert E. Czeizinger
Agency Contact Phone Number	(302) 735-4140
Corrective Action Plan	***Change Management – Limited System Development Lifecycle Procedure Guidance*** The leadership of the Technology Resources and Data Development Group will develop a written policy designed to strengthen our guidance regarding System Development and Lifecycle Procedures.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The Guidance was put into place in the last quarter of fiscal year 2011.
Anticipated Completion Date (if not Fully corrected).	April 30, 2011.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Education Cape Henlopen School District
Fiscal Year	2010
Reference Number	10-ED-07
Related Prior Year Findings	
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010, S-84.389)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Special Tests and Provisions (Schoolwide Programs)
Criteria	A school participating under Title I, Part A may, in consultation with its Local Educational Agency (LEA), use its Title I, Part A funds, along with funds provided from other Federal, State, and local education funds, to upgrade the school's entire educational program in a schoolwide program. At least 40 percent of the children enrolled in the school or residing in the school attendance area for the year of the schoolwide program must be from low-income families. The LEA is required to maintain records to demonstrate compliance with this requirement. a. To operate a schoolwide program, a school must include the following three core elements: (1) Comprehensive needs assessment of the entire school (34 CFR section 200.26(a)). (2) Comprehensive plan based on data from the needs assessment (34 CFR section 200.26(b)). (3) Annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation (34 CFR section 200.26(c)). b. A schoolwide plan also must include the following components: (1) Schoolwide reform strategies (34 CFR section 200.28(a)). (2) Instruction by highly qualified professional staff (34 CFR section 200.28(b)). (3) Strategies to increase parental involvement (34 CFR section 200.28(c)). (4) Additional support to students experiencing difficulty (34 CFR section 200.28(d)). (5) Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR section 200.28(e)).
Condition	The Cape Henlopen School District had four schools which were using Title I funds under schoolwide programs during the year ended June 30, 2010, however, we were unable to obtain the schoolwide plan for any of these schools to test compliance with the elements and components noted under Criteria.
Cause	The Cape Henlopen School District was unable to provide a comprehensive schoolwide plan for those schools utilizing Title I funds under a schoolwide program.
Effect	There was no evidence of properly developed schoolwide plans for the district's schools which were under a schoolwide program to ensure compliance with the stated criteria.
Recommendation	We recommend that the Cape Henlopen School District develop procedures to ensure a schoolwide plan is developed for all schools being provided funds on a schoolwide basis and ensure such plan incorporates all necessary components required by the Federal regulations.
Questioned Costs	Questioned costs are not determinable.
Agency Contact	**Cape Henlopen School District**

STATE OF DELAWARE
Summary Status of Prior Year Findings
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Name	Michael Kelley
Agency Contact Phone Number	**Cape Henlopen School District** (302) 645-6686
Corrective Action Plan	The District will work with the DOE to develop guidance and procedures to ensure that each of its schools operating under a schoolwide program have developed a schoolwide plan that encompasses all the necessary federal requirements.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Completed – July 1, 2011.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Education Caesar Rodney School District Cape Henlopen School District Laurel School District Woodbridge School District
Fiscal Year	2010
Reference Number	10-ED-08
Related Prior Year Findings	
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010, S-84.389) Improving Teacher Quality State Grants (84.367)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Special Tests and Provisions (Private School Children)
Criteria	For programs funded under Title I, Part A (CFDA 84.010), a Local Educational Agency (LEA), after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families. Eligible private school children are those who reside in a participating public school attendance area and have educational needs under section 1115(b) of ESEA (20 U.S.C. 6315(b)). Title I, Part A funds must be allocated to each participating public school attendance area on the basis of the total number of children from low-income families residing in that area. In calculating the total number of children from low-income families, an LEA must include children from low-income families who attend private schools. An LEA must use the portion of Title I, Part A funds attributable to private school children from low-income families included in the calculation to provide services to eligible private school children. For example, if $100,000 of Title I, Part A funds are allocated based on 100 children from low-income families, 25 of whom are private school children, $25,000 of the $100,000 must be expended to provide equitable services to eligible private school children.
Condition	The Caesar Rodney, Cape Henlopen, Laurel and Woodbridge School Districts could not provide any evidence that a calculation was performed to ensure Title I, Part A funds were properly allocated to children from low-income families who attended private schools on the same basis as those children from low-income families who attended the public schools.
Cause	School district personnel were not fully aware of the federal requirements to perform a per pupil calculation to ensure federal funds were properly allocated between children from low-income families who attended either public or private schools.
Effect	There is no proof of an equitable allocation of funds for services between children from low-income families who attend either public or private schools.
Recommendation	We recommend that the school district personnel be properly trained by the State Department of Education to ensure the districts fulfill the federal requirements pertaining to the participation of services for private school children from low-income families.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Theresa Vendrzyk Kough
Agency Contact Phone Number	(302) 857-3390
Corrective Action Plan	As part of the United States Department of Education (ED) monitoring process, responses and corrective actions were taken for the requirement of the participation of private school

	children in federal programs. The ED's Student Achievement and School Accountability (SASA) Office issued a letter in December of 2010 stating that all findings have been resolved.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The corrective actions were implemented during the second half of fiscal year 2011.
Anticipated Completion Date (if not Fully corrected).	July 1, 2011

Agency	Department of Education
Fiscal Year	2010
Reference Number	10-ED-09
Related Prior Year Findings	09-ED-07
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Special Tests and Provisions (Title 1 Monitoring Report)
Criteria	*Participation of Private School Children* For programs funded under Title I, Part A (CFDA 84.010), a Local Educational Agency (LEA), after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families. Eligible private school children are those who reside in a participating public school attendance area and have educational needs under section 1115(b) of ESEA (20 U.S.C. 6315(b)). Title I, Part A funds must be allocated to each participating public school attendance area on the basis of the total number of children from low-income families residing in that area. In calculating the total number of children from low-income families, an LEA must include children from low-income families who attend private schools. An LEA must use the portion of Title I, Part A funds attributable to private school children from low-income families included in the calculation to provide services to eligible private school children. For example, if $100,000 of Title I, Part A funds are allocated based on 100 children from low-income families, 25 of whom are private school children, $25,000 of the $100,000 must be expended to provide equitable services to eligible private school children. If an LEA reserves funds off the top of its Title I, Part A allocation to provide instructional and related activities for public school students at the district level, the LEA must also provide from those funds, as applicable, equitable services to eligible private school students. From applicable funds reserved for parent involvement and professional development, an LEA must ensure that teachers and families of participating private school children have an equitable opportunity to participate in professional development and parent involvement activities, respectively. The amount of funds available to provide these services must be proportionate to the number of private school children from low-income families residing in participating public school attendance areas (Sections 1113(c) and 1120 of ESEA (20 USC 6313(c) and 6320); 34 CFR sections 200.62 through 200.67 and 200.77 through 200.78). *Comparability* An LEA may receive funds under Title I, Part A only if State and local funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving Title I, Part A funds. An LEA is considered to have met the statutory comparability requirements if it filed with the State Educational Agency (SEA) a written assurance that such LEA has implemented (1) an LEA-wide salary schedule; (2) a policy to ensure equivalence among schools in teachers,

	administrators, and other staff; and (3) a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies. An LEA may also use other measures to determine comparability, such as comparing the average number of students per instructional staff or the average staff salary per student in each school receiving Title I, Part A or MEP funds with those in schools that do not receive Title I, Part A or MEP funds. If all schools are served by Title I, Part A or MEP, an LEA must use State and local funds to provide services that, taken as a whole, are substantially comparable in each school. Determinations may be made on either a district-wide or grade-span basis. An LEA may exclude schools with fewer than 100 students from its comparability determinations. The comparability requirement does not apply to an LEA that has only one school for each grade span. An LEA may exclude from determinations of compliance with this requirement State and local funds expended for (1) bilingual education for children with limited English proficiency (LEP); and (2) the excess costs of providing services to children with disabilities as determined by the LEA. The LEA may also exclude supplemental State or local funds for programs that meet the intent and purposes of Title I, Part A or MEP (Sections 1120A(c)-(d) and 1304(c)(2) of ESEA (20 USC 6321(c)-(d) and 6394(c)(2)); 34 CFR sections 200.79 and 200.88). Each LEA must develop procedures for complying with the comparability requirements and implement the procedures annually. The LEA must maintain records that are updated biennially documenting compliance with the comparability requirements. The SEA, however, is ultimately responsible for ensuring that LEAs remain in compliance with the comparability requirement (Section 1120A(c) of ESEA (20 USC 6321(c)). *Highly Qualified Paraprofessionals* Qualifications for paraprofessionals support by Title I, Part A funds are as follows: a. An LEA must ensure that each paraprofessional who is hired by the LEA after January 8, 2002 and who works in a program supported with Title I, Part A funds meets specific qualification requirements. Paraprofessionals who work in a program supported with Title I, Part A funds and who were hired by an LEA prior to January 8, 2002, had to meet these requirements by the end of the 2005-2006 school year. The term “paraprofessional” means an individual who provides instructional support; it does not include individuals who have only non-instructional duties (such as providing technical support for computers, providing personal care services, or performing clerical duties). A paraprofessional works in a program supported with Title I, Part A funds if the paraprofessional is paid with Title I, Part A funds in a Title I targeted assistance school or works as a paraprofessional in a schoolwide program school. b. A paraprofessional must hold a high-school diploma or its recognized equivalent and meet one of the following requirements: (1) Have completed at least two years of study at an institution of higher education. (2) Have obtained an associate’s or higher degree. (3) Have met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, reading/language arts, writing, and mathematics, or reading readiness, writing readiness, and mathematics readiness.

	c. A paraprofessional who is proficient in English and a language other than English and acts as a translator or who has duties that consist solely of conducting parental involvement activities need only have a high-school diploma or its recognized equivalent. (Title I, Section 1119(c)-(f) of ESEA (20 USC 6319(c)-(f)); 34 CFR section 200.58)
Condition	During fiscal year 2010, the U. S. Department of Education's (ED) Student Achievement and School Accountability (SASA) office reviewed the Delaware Department of Education's (DOE) administration of the Title I programs authorized by the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act (NCLB). Based on our review of the monitoring report (Title I Monitoring Report) issued on November 5, 2010, the following findings cited below related to the compliance requirements applicable to the Title I Grant to Local Educational Agencies as described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* for the year ended June 30, 2010. *Participation of Private School Children* The Delaware SEA has not ensured that its LEAs met requirements regarding the selection of private school students for participation in the Title I program. *Comparability* The Delaware SEA has not ensured that its LEAs comply with the comparability requirement. The Delaware SEA staff indicated that, since the State has a policy to ensure comparability in staffing, it was only necessary for LEAs to indicate that the State had established policies to ensure equivalence among schools in staffing. *Highly Qualified Paraprofessionals* The Delaware SEA has not ensured that its LEAs complied with the hiring requirements for instructional paraprofessionals working in Title I schools.
Cause	Originally, the DOE either misinterpreted the required compliance requirements or failed to ensure full compliance with the above special tests and provisions for the Title I program.
Effect	The DOE is not fulfilling the special tests and provisions required by the OMB Circular A-133.
Recommendation	We recommend that DOE implement the further actions required for each finding identified in the Title I Monitoring Report and interact with the SASA office to ensure its compliance procedures are approved.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Theresa Vendrzyk Kough
Agency Contact Phone Number	(302) 857-3390
Corrective Action Plan	As part of the ED monitoring process, responses and corrective actions were taken in each of the cited areas. ED's SASA office issued a letter in December of 2010 stating that all findings have been resolved.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒

	Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The corrective actions were implemented during the second half of fiscal year 2011.
Anticipated Completion Date (if not Fully corrected).	July 1, 2011.

Agency	Department of Education
Fiscal Year	2010
Reference Number	10-ED-10
Related Prior Year Findings	09-ED-08
Program Name (CFDA No.)	Special Education Cluster (84.027, 84.173, S-84.191, S-84.192)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Level of Effort (Maintenance of Effort)
Criteria	**SEA – LEVEL OF EFFORT** A State may not reduce the amount of State financial support for special education and related services for children with disabilities (or State financial support otherwise made available because of the excess costs of educating those children) below the amount of State financial support provided for the preceding fiscal year. The Secretary reduces the allocation of funds under 20 USC 1411 for any fiscal year following the fiscal year in which the State fails to comply with this requirement by the amount by which the State failed to meet the requirement. If, for any fiscal year, a State fails to meet the State-level maintenance of effort requirement (or is granted a waiver from this requirement), the financial support required of the State in future years for maintenance of effort must be the amount that would have been required in the absence of that failure (or waiver) and not the reduced level of the State's support (20 USC 1412(a)(18); 34 CFR section 300.163). **LEA – LEVEL OF EFFORT** Individual Disability Education Act (IDEA), Part B funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of State and local funds, expended for this purpose by the LEA in the prior fiscal year. Allowances may be made for: (a) the voluntary departure, by retirement or otherwise, or departure for just cause, of special education personnel; (b) a decrease in the enrollment of children with disabilities; (c) the termination of the obligation of the agency, consistent with this part, to provide a program of special education to a particular child with a disability that is an exceptionally costly program, as determined by the State Educational Agency (SEA), because the child has left the jurisdiction of the agency, has reached the age at which the obligation of the agency to provide a free appropriate public education (FAPE) has terminated or no longer needs such program of special education; (d) the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities; or (e) the assumption of costs by the high cost fund operated by the SEA under 34 CFR section 300.704 (20 USC 1413(a)(2); 34 CFR sections 300.203 and 300.204).

Condition	We were unable to obtain a copy of the State's MOE calculation for the year ended June 30, 2010. In addition, based on a review of the LEA MOE calculations (Excess Cost for IDEA template) included in 2010 consolidated subgrant applications for each of the eight school districts selected for testing, we noted that the methodology that school districts used in completing the template were not consistent among the school districts. Some school districts used appropriation codes, some used object codes and some used a pro rata share of those expenditures based upon their special education units by total units. Without a consistent and well-defined methodology, the ability to truly measure changes between the years for each school district becomes more problematic.
Cause	It is our understanding that the State's MOE calculation was completed but evidence of the completed MOE calculation could not be located/provided as a result of personnel turnover in the position of the person responsible for completing the calculation. Lacking specific guidance or oversight, the school districts are not completely knowledgeable of how the Special Education MOE calculation should be completed to ensure consistency among the school districts and from year to year.
Effect	The State or the school districts may not have truly met their Special Education MOE requirements.
Recommendation	We recommend that the State MOE calculation for Special Education be stored in a central repository at the State Department of Education to ensure its availability even if personnel turnover occurs. We also recommend that the DOE provide detailed guidance and training for the school districts on the completion of the Special Education MOE template. We believe these procedures should be consistent for each school so the Special Education MOE calculations can be monitored more easily, if necessary.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Emily Falcon
Agency Contact Phone Number	(302) 735-4040
Corrective Action Plan	Procedures will be instituted to ensure that all MOE calculations are maintained in a central repository to insulate them from staff turnover issues. Additionally, DOE has taken steps to automate the MOE calculations for LEAs to ensure consistent and accurate calculations. DOE will provide additional guidance for the LEAs on these calculations to ensure their staff is knowledgeable about the MOE template and can assist in detecting any errors or inconsistencies in the calculations.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The finding was not fully corrected during fiscal year 2011.
Anticipated Completion Date (if not Fully corrected).	July 2011.

STATE OF DELAWARE
Summary Status of Prior Year Findings
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Agency	Department of Education
Fiscal Year	2010
Reference Number	10-ED-11
Related Prior Year Findings	09-ED-09
Program Name (CFDA No.)	Child and Adult Care Food Program (10.558)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Eligibility (Subrecipients)
Criteria	In accordance with the Child and Adult Care Food (CACFP) Program, a State administering agency must follow the following eligibility requirements: a. Administering agencies may disburse CACFP funds only to those organizations that meet the eligibility requirements stated in the following program requirements: (1) generic requirements for all institutions at 7 CFR section 226.15 and 42 USC 1766(a)(6) and (d)(1); (2) additional requirements for sponsoring organizations at 7 CFR section 226.16; (3) additional requirements for child care centers (whether independent or sponsored) at 7 CFR section 226.17; (4) additional requirements for day care homes (which must be sponsored) at 7 CFR section 226.18; (5) additional requirements for outsideschool- hours centers at 7 CFR section 226.19; (6) additional requirements for adult day care centers (whether independent or sponsored) at 7 CFR section 226.19a; (7) additional requirements for at-risk afterschool programs at 7 CFR section 226.17a; and (8) additional requirements for emergency shelters at 42 USC 1766(t). b. For-profit child care and outside-school-hours care centers may participate in the CACFP if they meet either of the following two criteria: (1) at least 25 percent of the enrolled children or 25 percent of the licensed capacity, whichever is less, are funded under Title XX of the Social Security Act; or (2) at least 25 percent of the children in their care are eligible for free or reduced price meals. Children who participate only in the at-risk afterschool component of the program must not be considered in determining whether the institution met this 25 percent threshold (42 USC 1766(a)(2)(B); 7 CFR section 226.11(c)(4)). c. For-profit adult day care centers may be eligible for CACFP if at least 25 percent of their participants receive benefits under Title XIX or Title XX of the Social Security Act (7 CFR section 226.2 (definition of “for-profit center”)).

Condition	Based on our review of the applications of thirty subrecipients, we noted the following items: • The annual applications do not contain explicit language ensuring that the subrecipients are not ineligible for publicly funded programs due to their violation of program requirements or criminal convictions during the past seven years. • The annual applications do not contain all the required components of the performance standards. The standards require the organizations have documentation supporting 1) the organizations need and recruiting and 2) fiscal resources and financial history. In addition, renewing organizations should have documentation of fiscal accountability which includes a financial system with management controls in writing and accounting records. • Four out of the thirty organizations application files did not have outside employment policies.
Cause	Standard applications have not been reviewed recently to ensure all federal regulations have been incorporated.
Effect	The applications do not contain all the components required by federal regulations.
Recommendation	We recommend that the Delaware Department of Education revise its CACFP applications to ensure all necessary components listed in the Federal regulations are explicitly incorporated.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Linda Wolfe, Director, School Support Services
Agency Contact Phone Number	(302) 735-4060
Corrective Action Plan	The condition regarding the annual applications that do not contain explicit language ensuring that the subrecipients are not ineligible for publicly funded programs was corrected October 2010. The required elements were added to the new nutrition software program application. The Delaware Nutrition Accountability and Reporting System (DENARS) has an online application component that all sponsors are required to complete prior to each fiscal year. The new system was implemented in October 2010 for CACFP. The condition regarding the annual applications that do not contain all the required components of the performance standards was corrected in October 2010. The required elements were added to the DENARS online application that all sponsors must complete annually. Additionally, these areas are covered in the administrative reviews conducted for all renewing sponsors. All new applicants are required to submit the balance sheet from their most recent audit or 2 months of checking account statements for review. This information is provided at the training. We believe this combination of modifications to forms and processes fully satisfies all issues outlined in this condition.

	In response to the condition regarding the outside employment policies, for the past two application approval cycles (2009/10 and 2010/11), the state agency has reviewed all renewing sponsors' file documents to ensure that Outside Employment Policy Statements and all other required documents were in the files. We included these items on the annual file review checklist and have this documentation to support our position that all current files contain the required documents.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Corrective action plan was enacted for fiscal year 2011.
Anticipated Completion Date (if not Fully corrected).	July 1, 2011.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Education
Fiscal Year	2010
Reference Number	10-ED-12
Related Prior Year Findings	09-ED-11
Program Name (CFDA No.)	Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559) Child and Adult Care Food Program (10.558)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Subrecipient Monitoring
Criteria	A pass-through entity is responsible for (1) ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions. (OMB Circular A-133 Compliance Supplement, Part 3, Section M) A pass-through entity is responsible for evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations. (OMB Circular A-133 Compliance Supplement, Part 3, Section M).
Condition	Based on our review of the program's subrecipient monitoring, we noted that while the Delaware Department of Education ensures that its applications for both Child Nutrition and Child and Adult Care Food Programs include the need for subrecipients expending $500,000 or more in federal awards have an audit, there is no mechanism in place to track whether any such subrecipients have confirmed that need for an OMB Circular A-133 audit and, in turn, whether the DOE should be following up on any audits performed.
Cause	The DOE has not developed a procedure to ensure it monitors any subrecipients who may be required to meet the audit requirements of OMB Circular A-133 and ensure its on-site visits on its subrecipients meet the required criteria. Furthermore, the DOE is not adhering to the prescribed internal control procedures for review of payment vouchers to subrecipients.
Effect	The DOE does not appear to be fulfilling all of its subrecipient monitoring responsibilities.
Recommendation	We recommend that the DOE develop procedures to ensure it adequately tracks and monitors possible audits required for its subrecipients and ensure original approved payment vouchers are readily available.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Linda Wolfe, Director, School Support Services
Agency Contact Phone Number	(302) 735-4060
Corrective Action Plan	The newly implemented (October 2010) CACFP portion of the DENARS application system addresses the conditions listed above. The application allows the DOE to search any sponsor to determine their compliance with the A-133 audit requirement certification statement. The application system also allows the DOE to track the current status of each sponsor's compliance.

	Additionally, DOE Nutrition Programs is currently developing a *program processes* document that will provide guidance on all activities of the program. The first three completed processes relate to A-133, including the responsibility of the agency to collect, review, and monitor audits.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Corrective action plan was enacted for fiscal year 2011.
Anticipated Completion Date (if not Fully corrected).	July 1, 2011.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Education Brandywine School District
Fiscal Year	2010
Reference Number	10-ED-13
Related Prior Year Findings	
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010, S-84.389) Special Education Cluster (84.027, 84.173, S-84.391, S-84.392) State Fiscal Stabilization Fund (S-84.394)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Allowable Costs (Payment Vouchers)
Criteria	To be allowable under federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C): • Be necessary and reasonable for proper and efficient performance and administration of Federal awards. • Be allocable to Federal awards under the provisions of the Circular. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. • Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. • Be adequately documented.
Condition	While the Brandywine School District's internal controls require that payment vouchers be signed off and approved prior to being processed, based on a sample of 36 nonpayroll expenditures totaling $445,750, five payment vouchers amounting to $3,145 were signed off after they were already processed into the general ledger.
Cause	The Brandywine School District did not adhere to its internal control policy to have all payment vouchers approved prior to being entered into the general ledger.
Effect	Potential unallowable costs could have been entered into the general ledger since the payment vouchers were not approved prior to processing, however, the payment vouchers were still signed and approved for allowability subsequent to their acceptance into the general ledger.
Recommendation	We recommend that the district reinforce the need to ensure that payment vouchers are approved prior to being entered into the general ledger so their internal control process functions as a preventative control for possible unallowable expenditures rather than as a detective control.
Questioned Costs	No unallowable costs were identified.
Agency Contact Name	**Brandywine School District** David Blowman
Agency Contact Phone Number	**Brandywine School District** (302) 793-5045
Corrective Action Plan	The Chief Financial Officer will reinforce the need to fully comply with the district's internal control procedures by ensuring all payment vouchers have been approved before being entered in the general ledger.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐

	No longer warranting further action.☐
Description of Status	Completed – Immediately.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Education Red Clay Consolidated School District
Fiscal Year	2010
Reference Number	10-ED-14
Related Prior Year Findings	
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010, S-84.389)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Procurement
Criteria	Title 29, Chapter 69, State Procurement, Subchapter VI. Professional Services, Subsection 6985. *Sole source procurement* states: "(a) A contract may be awarded for professional service without competition if the agency head, prior to the procurement, determines in writing that there is only 1 source for the required professional service. Sole source procurement shall not be used unless there is sufficient evidence that there is only 1 source for the required professional service and that no other type of professional service will satisfy the requirements of the agency. The agency shall examine cost or pricing data prior to an award under this section. Sole source procurement shall be avoided, except when no reasonable alternative sources exist. A written determination by the agency on the basis for the sole source procurement shall be included in the contract file. (b) An agency seeking a sole source procurement shall prepare written documentation citing the existence of a sole source condition. The document shall include the specific efforts made to determine the availability of any other source and an explanation of the procurement need. The agency may, for confirmation, submit this documentation to the Section for review and comment prior to the intended date of award. (c) The agency shall negotiate with the single supplier, to the extent practicable, a contract advantageous to the agency. The agency shall enter into a formal contract stating the terms and conditions of the procurement." The Delaware Department of Education (DOE) utilizes the "Delaware Accountability Ratings" system, ratings based on standardized testing scores to assess the schools' academic programs. Schools who are rated as under improvement, corrective action, or restructuring are required by Title I to consult with "outside experts" regarding school improvement plans. For the schools' reference, DOE maintains a listing of Distinguished Educators, individuals with specific areas of expertise who are available to enter into contractual agreements. Schools are not required to hire consultants from this listing.
Condition	The following finding was noted in connection with a sole source procurement special investigation conducted by the State's Auditor of Accounts (AOA) on the Red Clay Consolidated School District with a fieldwork end date of March 24, 2010. The Red Clay Consolidated School District has two Title I schools rated as under improvement, which requires them to consult with an "outside expert" to develop adequate improvement plans. To comply with this requirement, the District referred to the listing of Distinguished Educators maintained by the DOE, and selected the only two consultants on this listing designated as Distinguished Educators for "strategies for improvement based upon comprehensive analysis of current academic status." The District contracted with these

	two individuals, treating them as sole source contracts. Although the schools are required to consult with an "outside expert," that "outside expert" is not required to be on the listing of Distinguished Educators maintained by DOE. DOE's intention was not to make these vendors the exclusive providers of services, but merely to be a starting point for determining vendors that could be included in the normal bidding process. The District's written documentation citing the existence of a sole source condition did not include a description of the "specific efforts made to determine the availability of any other source and an explanation of the procurement need."
Cause	The District incorrectly determined this was a sole source contract situation based on the fact that the two consultants were listed on DOE's listing of Distinguished Educators.
Effect	Since other qualified individuals may exist outside of the Distinguished Educators listing and an open bidding process was not used, the District may be paying more than needed to obtain these services. The District did not comply with Delaware procurement laws.
Recommendation	The District should consider all qualified individuals when in need of consulting services. In doing so, the District may find that their particular needs may be adequately filled by another vendor with cost savings for the District. If the District determines the contract will be sole source based on the research performed, the District should adequately document the determination in accordance with Title 29, Chapter 69, Subsection 6985(b). Otherwise, contracts for these services should be subjected to the normal bidding practices.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	**Red Clay Consolidated School District** Jill Floore
Agency Contact Phone Number	**Red Clay Consolidated School District** (302) 552- 3725
Corrective Action Plan	The District believes it acted within the proper scope of Title 29 in issuing the sole source contract with Dr. Linda Poole and Mr. Lew Miller. In addition to their unique qualifications as provided in the sole source procurement documentation regarding their specific educational careers as Directors of Curriculum and Instruction in the State of Delaware, the district coordinated with the State Department of Education and the process of identification of distinguished educators for compliance with federal law. Section 1117, (4) (A), School Support and Recognition, states the following for using a qualified vendor: "(4) STATEWIDE SYSTEM (A) In order to achieve the purpose described in paragraph (1), the statewide system shall include, at a minimum, the following approaches: (i) Establishing school support teams in accordance with subparagraph (C) for assignment to, and working in, schools in the State that are described in paragraph (2). (ii) Providing such support as the State educational agency determines necessary and available in order to ensure the effectiveness of such teams. (iii) Designating and using distinguished teachers and principals who are chosen from schools served under this part that have been especially successful in improving academic achievement. (iv) Devising additional approaches to providing the assistance described in paragraph (1), such as providing assistance through institutions of higher education and educational service agencies or other local consortia, and private providers of scientifically based technical assistance." In assisting districts, the Delaware Department of Education used a comprehensive and rigorous process for identifying distinguished educators to work across the state. Only 14 of the original 40 applicants were selected for the list. Additionally, while many completed the

	process, only Dr. Poole and Mr. Miller were identified under School Improvement and the specific area of focus under the contract. In fact, the Department of Education has contracted with these two individuals to provide statewide training in curriculum and instruction. Through considerable notification, this was a process open to all individuals and vendors. The District believes the use of an alternative vendor outside the process of identification or collaboration with the Department of Education would have been a violation of the federal requirements and not within the spirit of funding under Title I. While the District agrees there may be an educational firm or firms capable of performing school improvement work on a national level, none would be knowledgeable about the specific standards and requirements in the state of Delaware and the cost of developing this knowledge would be exorbitant. Minimizing cost was a significant factor and going outside the process of identification would have increased the cost for procurement rather than lowering it. The District believes the findings are incorrect and do not recognize the information provided by the District and the Department of Education. The District has continued to be in contact with the Department of Education over the issue and have an understanding the District acted in an appropriate manner with the contracts.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☒
Description of Status	No further action considered necessary.
Anticipated Completion Date (if not Fully corrected).	N/A

Agency	Department of Health and Social Services: Division of Management Services
Fiscal Year	2010
Reference Number	10-DHSS-01
Related Prior Year Findings	09-DHSS-01
Program Name (CFDA No.)	Supplemental Nutrition Assistance Program Cluster (10.551, 10.561, S-10.561) Temporary Assistance for Needy Families (93.558, S-93.714) Child Care Cluster (93.596, 93.575, S-93.713) State Children's Health Insurance Program (93.767) Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Allowable Costs
Criteria	The State follows a PCAP that administers federal programs within the DSS, DMMA, and Divisions of Management Services, all of which are divisions within the Delaware Department of Health and Social Services (DHSS). The PCAP plan was effective for the period July 1, 2005 through September 30, 2008, with an automatic annual conditional approval until the new PCAP is approved. A State must claim Federal financial participation for costs associated with a program only in accordance with its approved cost allocation plan (45 CFR section 95.507).
Condition	The Department did not follow its cost allocation plan when charging costs related to the Division of Medicaid and Medical Assistance (DMMA). The Public Assistance Cost Allocation Plan (PCAP) designates DMMA costs to be charged directly to the Medicaid program or through the indirect charge method across all DMMA programs. However, the Department was incorrectly allocating the DMMA related costs among the Division of Social Services (DSS) programs.
Cause	The State did not set up the proper allocation method within its general ledger system to allocate DMMA costs in accordance with the approved PCAP.
Effect	DMMA costs were charged incorrectly to DSS federal programs and were not charged in accordance with the approved PCAP.
Recommendation	We recommend the State ensures its general ledger, Delaware Financial Management System (DFMS), is properly configured to allocate costs out of the cost pool in accordance with its approved PCAP plan. We also recommend that the PCAP plan be revised to reflect an allocation of costs to federal programs based on the true effort being provided to those federal programs. The State should also implement procedures to perform a review of the costs being allocated out of the cost pool to ensure it is being allocated in accordance with the approved PCAP.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	In February 2010, DHSS secured assistance from an independent firm for the purpose of reviewing the department's Random Moment Sampling (RMS) process which is a vital component of the Public Assistance Cost Allocation Plan (PCAP). Based on this review, changes were implemented to improve that process and the resulting allocations. This

	included regular updates to the employee roster from which the RMS sample is drawn and the provision of RMS training to workers that respond to the time study. Additionally, DHSS released a Request for Information (RFI) soliciting proposals from prospective vendors to replace DHSS's Random Moment Time Study (RMTS) and cost allocation system software as both applications are unsupported and outdated. Contracts were subsequently awarded and the new internet based RMTS was fully implemented on 1/1/11 and the cost allocation software is in the process of being implemented. Finally, DHSS released a Request for Proposal (RFP) and subsequently awarded a contract to secure further outside assistance to review of DHSS's system of Federal program administration and cost allocation including an in-depth review of the public assistance programs DHSS participates in, allocation methodologies and the supporting systems/processes. The objective of this concentrated effort is to (1) update/document the cost pools and allocation methodologies, (2) upgrade/improve the systems related to and supporting the PCAP, and (3) production of an up-to-date, integrated DHSS PCAP with sound quality control procedures. Work has commenced and we target this project to be completed in calendar year 2011 with the resulting PCAP submitted to the Department of Health and Human Services Division of Cost Allocation (DCA) for approval toward the end of 2011.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	***Regarding the new cost allocation system software***, DHSS staffs have been trained in the software's use and the system is targeted to be transitioned to DHSS by 6/30/11 along with technical documentation and user manual. ***Regarding the review of DHSS's system of Federal program administration and cost allocation, the status of that project is as follows***. • The outside firm contracted for this review is currently conducting interviews of the various internal DHSS organizations with interviews targeted for completion by 7/31/11. • A draft of the up to date DHSS PCAP is targeted to be completed by 9/30/11. • The final PCAP is targeted to be submitted to the Department of Health and Human Services Division of Cost Allocation (DCA) for their approval by 12/31/11 with an effective implementation date of 1/1/12.
Anticipated Completion Date (if not Fully corrected).	12/31/11 target submission date to DCA (implementation contingent on DCA approval).

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services: Division of Management Services
Fiscal Year	2010
Reference Number	10-DHSS-02
Related Prior Year Findings	09-DHSS-04
Program Name (CFDA No.)	Temporary Assistance for Needy Families Cluster (93.558, S-93.714)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Reporting
Criteria	ACF-196, *TANF Financial Report (OMB Control No. 0970-0247)* – States are required to submit this report quarterly in lieu of the SF-269, *Financial Status Report*. Each State files quarterly expenditure data on the State's use of Federal TANF funds, State TANF MOE expenditures, and State expenditures of MOE funds in separate State programs. If a State is expending Federal TANF funds received in prior fiscal years, it must file a separate quarterly TANF Financial Report for each fiscal year that provides information on the expenditures of that year's TANF funds.
Condition	The total expenditures recorded in the State's Schedule of Expenditures of Federal Awards for the Temporary Assistance for Needy Families (TANF) Cluster, as supported by the Delaware Financial Management System (DFMS), amounted to $49,803,520. The State completed drawdowns of $49,420,528. The total federal expenditures reported on the Forms ACF-196 during the State's fiscal year ended June 30, 2010 for all open program years amounted to $33,014,146. We were unable to obtain and test a reconciliation of the TANF amounts reported to the U.S. Department of Health and Human Services on Forms ACF-196 to the amounts reported on the SEFA.
Cause	DHSS does not have a procedure in place to reconcile total amounts reported on the Forms ACF-196 to the total amounts reported on the State's accounting system, DFMS, to ensure that all federal expenditures and transfers to other programs (Child Care Development Fund and Social Services Block Grant).
Effect	The amounts reported to the U.S Department of Health and Human Services on Forms ACF-196 could not be reconciled to the amounts reported on the SEFA.
Recommendation	We recommend that DHSS develop procedures to reconcile cumulative expenditures reported on Forms ACF-196 to expenditures accumulated on the State's accounting system to ensure all federal expenditures and transfers to other federal programs are appropriately reported.
Questioned Costs	Questioned costs are not known as a result of the unidentified reconciling items.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	DHSS Grants Section will initiate procedures and policies and will update the internal controls for all federal reporting to ensure that all federal funds are reported timely and accurately. This includes quarterly meetings with fiscal staff from both DHSS Grants and the Division of Social Services, an accounting of the federal drawdown for the quarter and reconciliation with the First State Financials (FSF) reports including the Monthly Appropriation Expenditure by Account, the newly created Monthly Budgetary Actuals

	Report and the Budget Status reports from the Grants management modular.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DHSS has begun the process of designing a system of checks and balances with recurring meetings among agencies of the Temporary Assistance for Needy Families (TANF) Cluster. These meetings were initiated in August of 2011 to begin the process of ensuring that all grant information is accounted for and reconciled in all accounting systems, encompassing grant awards, budget funding, expenditures and drawdowns. Additionally, DHSS is currently engaged in developing written procedures for report preparation which will include reconciling reported expenditures on Federal reports to reported expenditures in FSF, the State's accounting system and maintaining supporting report data as a resource for verification of draw and expenditure information. It is envisioned that reports and reconciliations will be continually shared among agencies thereby improving communication, enhancing the reconciliation process, ensuring the accuracy of the ACF-196 reporting.
Anticipated Completion Date (if not Fully corrected).	Third quarter of calendar year 2012.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services
Fiscal Year	2009
Reference Number	09-DHSS-05
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Temporary Assistance for Needy Families (93.558)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Reporting, Special Tests and Provisions (Penalty for Failure to Comply with Work Verification Plan)
Criteria	Each state that claims maintenance of effort expenditures for a state program must collect and submit on a quarterly basis the ACF-199 Temporary Assistance for Needy Families Data Report. The ACF-199 TANF data report consists of four sections containing demographic information and case status. The State agency must maintain adequate documentation, verification, and internal control procedures to ensure the accuracy of the data used in calculating work participation rates submitted in the report. (45 CFR sections 261.60, .61, .62, .63, .64, and .65)
Condition	For three of the 60 cases selected for testwork in 2009, we noted that the Division was not able to provide supporting documentation for the work participation status submitted to the Administration for Children and Families, Department of Health and Human Services in the ACF-199 Data Report.
Cause	Management did not maintain copies of the supporting documentation and was not able to provide data from the system for the cases in question.
Effect	The Division may not be accurately reporting data to determine its minimum annual work participation rate.
Recommendation	We recommend that the Division maintain copies of supporting documentation for all cases submitted on the ACF-199 report in accordance with federal regulation as stated in their TANF Work Verification Plan.
Questioned Costs	Question costs are not determinable.
Agency Contact Name	Barbara H. Hanson
Agency Contact Phone Number	(302) 255-9580
Corrective Action Plan	The Division of Social Services (DSS) will take the following corrective actions to address the concerns of this finding. DSS will plan and implement two corrective actions in order to assure that staff obtains the proper medical documentation of a client's inability to work, before the social worker exempts a client from participation with Employment and Training Vendors. The medical exemption will be validated by an outside vendor. First, using the new learning management system or remote/online learning process, DSS will develop mandatory refresher training for field workers on the work requirements for TANF clients. All staff will have to register for the class, participate in the training and pass the required test to demonstrate their understanding. All staff will be expected to accurately implement the Employment and Training policy for medical and other exemptions.

	Secondly, DSS currently has a contract with Jewish Employment Volunteer Services (JEVS) who is charged with conducting an independent medical evaluation on every TANF client who is coded in DCIS as medically unable to work or participate in work activities. JEVS began on 9/1/09 to review the active TANF clients who have been medically exempt for the longest period of time. In SFY11, all active medically exempt clients will be reviewed. Those clients who are not medically exempt will be required to look for work and cooperate with an Employment and Training vendor. Clients who do not cooperate, will have TANF benefits terminated.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Jewish Employment Volunteer Services (JEVS) is charged with conducting an independent medical evaluation on every TANF client coded in DCIS regarding their being medically unable to work or participate in work activities. JEVS began this process on 9/1/09 and in SFY 11 all TANF clients were reviewed and this process is fully operational and continues to be performed as described. Regarding the implementation of the Learning Management System (LMS), the development of coursework and operationalizing LMS has taken more time than anticipated. Although the on-line training is still pending, implementation is scheduled for 2012.
Anticipated Completion Date (if not Fully corrected).	May, 2012

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Department of Social Services
Fiscal Year	2010
Reference Number	10-DSS-01
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Child Care Cluster (93.575, 93.596, S-93.713)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Allowable Costs
Criteria	Payment Vouchers greater than $2,500 must be reviewed and approved as evidenced by two authorized signatures.
Condition	During our internal control testwork over management approval of payment vouchers we noted that, although the cost was allowable, payment voucher # 3507DCW010810 was not properly reviewed and approved with two authorized signatures.
Cause	The cause is human error.
Effect	Without proper review, payments may be made that are not allowable under federal guidelines.
Recommendation	Management should reinforce the need for proper review and approval of all payment vouchers prior to processing for payment.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	Due to an oversight, the identified payment voucher was not signed as noted in the finding. The need for proper review and approval of payment vouchers prior to processing will be reinforced with staff.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☒
Description of Status	With the implementation of the new First State Financials system (replacing the former paper document DFMS system), transactions are electronically work flowed through a required set of approvals. Therefore this type of oversight is avoided by the required work flow system approval process.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Department of Social Services
Fiscal Year	2010
Reference Number	10-DSS-02
Related Prior Year Findings	09-DHSS-02, 09-DHSS-03
Program Name (CFDA No.)	Temporary Assistance for Needy Families Cluster (93.558, S-93.714)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Suspension & Debarment
Criteria	Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).
Condition	The State has implemented a "boiler-plate" contract which states that they (the vendor) are neither suspended nor debarred from Federal procurement and non-procurement transactions. Two contracts totaling $276,690, out of seven contracts tested with a total value of $1,401,924, did not include the suspension and debarment language in the contract or contract amendment signed by the vendor. The total population of contracts exceeding $25,000 for this program was $3,873,885. The Excluded Parties List System (EPLS) was reviewed during the audit process, and none of the vendors included in the testing was on the EPLS.
Cause	Contract amendments standard language has not been updated to include suspension and debarment language for modification to contracts prior to 2009 or to contract extensions.
Effect	The Program may award federally funded contracts to disallowed vendors at the time of the amendment.
Recommendation	We recommend that all new contracts and amendments include the new suspended and debarred language as required by the compliance supplement.
Questioned Costs	We noted that this is not a compliance issue as the vendors tested were not on the EPLS listing.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	This contract was put in place and subsequent amendments processed prior to the 2009 boilerplate update. As this contract is in its last contract extension period, when reprocurement occurs, the suspension and debarment language will be included in the resulting contract.
Finding Status	Fully Corrected.☐

	Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As stated previously, this contract was put in place and subsequent amendments processed prior to the 2009 boilerplate update. As this contract is in its last contract extension period, when reprocurement occurs, the suspension and debarment language will be included in the resulting contract.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Department of Social Services
Fiscal Year	2010
Reference Number	10-DSS-03
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Eligibility
Criteria	According to the OMB A-133 June 2010 Compliance Supplement, "States are required to have… (3) a written application on a form prescribed by the agency and signed under a penalty of perjury. The State must require a written application signed under penalty of perjury and include in each applicant's case record facts to support the agency's decision on his/her application."
Condition	State as well as Federal Policy states that applicants are required to submit a written application signed under the penalty of perjury. DHSS has not retained all written applications required to verify that the application was submitted under the penalty of perjury for 1 of the 40 files tested.
Cause	The missing application could be due to staff failing to upload the application in DIS and/or the misplacement of the original application in the paper file.
Effect	Households are receiving government benefits without the legal security that individuals who make false statements will be persecuted to the full extent of the law.
Recommendation	We recommend that the State review this practice and also to advise supervisors to properly retain records by uploading files into DIS (scanning system) and maintaining paper files.
Questioned Costs	The individual was deemed eligible for Medicaid-funded emergency medical services and/or labor and delivery services only. There are no questioned costs associated with this finding as the individual did not have any qualifying claims during the fiscal year ended June 30, 2010.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	DSS agrees with the finding. The original case file with the application form is missing. The staff cannot locate the paper file. There is sufficient documentation in the eligibility system to support the benefit authorized after the application form was signed in December 2009. The number of misplaced paper case files should diminish in the future as more case files including application forms are scanned/document imaged into the automated system.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DSS continues its work/project on imaging required documents. This is an ongoing challenge. Documents to be scanned are backlogged at many locations and DSS is implementing a catch-up project in July 2011.

Anticipated Completion Date (if not Fully corrected).	The overall process of imaging required documents is a continuous process. DSS is targeting clearing the back log by 9/30/11 and remaining current afterwards.

Agency	Department of Health and Social Services Department of Social Services
Fiscal Year	2010
Reference Number	10-DSS-04
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778) Temporary Assistance for Needy Families Cluster (93.558, S-93.714)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Eligibility
Criteria	Only U.S. citizens and qualified aliens, as defined in section 431 of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), are eligible to receive cash assistance benefits. Citizens are those persons born in the 50 states and the District of Columbia, Puerto Rico, Guam, U.S. Virgin Islands, and Northern Mariana Islands. Qualified aliens are defined as aliens who are; (1) An alien lawfully admitted for permanent residence under the Immigration and Nationality Act (INA); (2) An alien granted asylum under section 208 of the INA; (3) A refugee admitted to the United States under section 207 of the INA; (4) An alien paroled into the United States under section 212(d)(5) of the INA for a period of at least 1 year; (5) An alien whose deportation is being withheld under section 243(h) of the INA as in effect prior to April 1, 1997, or whose removal is being withheld under section 241(b)(3)of the INA; (6) An alien granted conditional entry under section 203(a)(7) of the INA as in effect prior to April 1, 1980; (7)An alien who is a Cuban or Haitian entrant; or (8) An alien who (or whose child or parent) has been battered or subjected to extreme cruelty in the United States and otherwise satisfies the requirements of 8 U.S.C. 1641(c). Qualified aliens who entered the United States prior to August 22, 1996 are treated as if they were United States citizens. Qualified aliens admitted on or after August 22, 1996, are barred from receiving cash benefits for five (5) years, except for certain excepted groups described below who are not subject to the bar. The following excepted groups of aliens are exempt from the 5-yar ban on benefits: (1) Qualified aliens lawfully residing in the State who are honorably discharged veterans and who fulfill minimum active-duty service requirements, or who are on non-training active duty in the U.S. Armed Forces, or who are the spouse, unmarried dependent child, or unremarried surviving spouse of such a veteran or active-duty personnel, provided that, in the latter case, the marriage satisfied the requirements of the 38 U.S.C. S1304; (2) Refugees, for a period of five years after the date they entered the U.S. as refugees; (3) Asylees, for a period of five years after obtaining such status; (4) Aliens whose deportation of removal has been withheld, for a period of five years after obtaining such status; (5) Cuban/Haitian entrants, as defined in section 501(e) of the Refugee Education Assistance Act of 1980, for a period of five years after they obtain such status; and (6) Amerasian immigrants from Vietnam, admitted to the U.S. pursuant to section 84 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1988, for a period of five years after their admission. (7) Individuals who are eligible due to being lawfully admitted for permanent residence (LPR) who can be credited with 40 quarters of work; (8) Victims of Severe Trafficking per Public Law 106-386 Trafficking Victims Protection Act of 2000; and (9) An

	alien who (or whose child or parent) has been battered or subjected to extreme cruelty in the United States and otherwise satisfies the requirements of 8 U.S.C. 1641(c). Delaware Child Care policy states that "The Division will provide Child Care services for eligible families where there is at least one U.S. citizen or legal alien in the family. If one member of the family is a U.S. citizen or legal alien and they meet both technical and financial eligibility criteria. Child Care Services can be provided. The Division will evaluate non-U.S. citizen cases on an individual basis."
Condition	**Medicaid** Out of a sample of 40 cases selected for testing, we noted three instances where the supporting documentation used as proof of household income was under a different individual's name than the name of the parent/guardian on the application. **TANF** Out of a sample of 40 cases selected for testing, we noted six instances where the supporting documentation used as proof of household income was under a different individual's name than the name of the parent/guardian on the application. The parent/guardian was listed as a deemer (Note: A deemer is defined as an individual who is a parent or guardian for a child recipient, but who is ineligible to receive direct assistance for themselves from the State) in the case file.
Cause	The parent/guardian applicant did not satisfy the U.S. citizen or qualified alien requirement but have children that are U.S. citizens, therefore the Delaware Department of Health and Human Services (DHSS) personnel documented the parent/guardian applicant as a deemer. However, DHSS personnel did not adhere to specified documentation guidelines for acceptable proof of income used to determine household income for the parent/guardian.
Effect	The acceptance of supporting documentation of income from applicants which reflect names which do not match those of the applicant could result in providing benefits to individuals or families which are not eligible or in an amount not properly calculated.
Recommendation	Although the non-qualified alien parent/guardian applicant was classified as a deemer and is therefore not technically receiving assistance, there is nothing within State or Federal policy stating that this practice is acceptable. We recommend that DHSS review this practice and develop a clear public policy to address situations where ineligible aliens can apply for aid on behalf of eligible citizen children and to also develop guidelines as to what documentation is acceptable to support household income in such situations.
Questioned Costs	The total benefits issued during the fiscal year ended June 30, 2010 related to the TANF cases amounted to $13,947. There were no benefits paid during the fiscal year ended June 30, 2010 related to the Medicaid cases.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	Neither the federally approved Delaware TANF State Plan nor the federally approved Delaware Medicaid State Plan prohibit the practice identified in this finding. DSS believes that it is not necessary to change the policy to state it is acceptable for parents/caretakers to work under an alias. Policy cannot prescribe what name, DOB, SSN, etc. a parent gives the employer. All of the cases listed in this finding included nonlegally residing parents who voluntarily divulged that they are not legally residing but employed, who provided the required documentation of their income. Verification of income to be used to determine an

	eligible child's benefit is what is vital. Not counting a family's income earned under an alias would result in providing benefits to ineligible families and providing more benefits than the family is due.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As noted in the corrective action, DSS disagrees with this finding and can not offer a further update. Since neither the federally approved Delaware TANF State Plan or Medicaid State Plan prohibit the practice identified in this finding. DSS believes that it is not necessary to change the policy to state it is acceptable for parents/caretakers to work under an alias.. Verification of income to be used to determine an eligible child's benefit is what is vital and not counting a family's income earned under an alias would result in providing benefits to ineligible families and providing more benefits than the family is due.
Anticipated Completion Date (if not Fully corrected).	

Agency	Department of Health and Social Services Division of Child Support Enforcement
Fiscal Year	2010
Reference Number	10-CSE-01
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Child Support Enforcement (93.563, S-93.563)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Allowable Costs (Effort Reporting)
Criteria	Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution or the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee. (OMG Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit's system for establishing the estimates produce reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the difference between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5) Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures or employee effort. Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including: • The sampling universe must include all of the employees whose salaries and wages are

	to be allocated based on sample result. • The entire time period being sampled. • The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)
Condition	Time certifications for 6 employees with payroll amounting to $7,819, out of 65 employees sampled with a total payroll value of $59,641 tested, were not reviewed and approved on a timely basis. Total payroll charged to the program for the fiscal year was $5,767,356. The certifications related to August 15, 2009 were signed and dated September 2010.
Cause	A time certification for 6 employees was not reviewed and approved on a timely basis, due to the lack of oversight by the individual's supervisor.
Effect	Salaries may be inappropriately allocated to the Child Support Enforcement program.
Recommendation	We recommend that the supervisor reviews the time certification for each employee on a timely basis.
Questioned Costs	Questioned costs associated with this finding are undeterminable as there is no record maintained by the program as to the actual time spent working on the grant. However, the payroll costs charged to the program for the 6 employees for pay period August 15, 2009 were $7,819.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	The original time certifications were completed and signed in 2009 in a timely fashion. Unfortunately the original documentation was lost when responsibility for maintaining the documentation was transitioned/reassigned to the Administrative Specialist III position within the Director's Office when the Human Resources Timekeeping Liaison position was vacant. During this transition the documentation was lost and when the gap was discovered, the certifications were recreated, but dated in error by the responsible manager. In the future, the liaison, in conjunction with the Administrative Specialist II in the Director's office will ensure that the supervisors provide complete and timely certification for staff and that the documentation is effectively retained and stored in a central location. We also disagree that the salaries were inappropriately allocated to the Child Support Enforcement program. These staff worked 100% on the Child Support program and their effort benefited no other program, which the manager would attest to – but was not interviewed. Additionally, the manager oversaw these staff on a continuous basis during the audit period to the present and can affirmatively attest to the fact that the staff effort benefited no program other than Child Support.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	***Status – as DCSE disagreed with this finding there is no status change to report. DCSE had at the time of the finding and still has appropriate internal controls in place to prevent salaries from being inappropriately allocated to the Child Support Program. The liaison, an Administrative Specialist III assigned to the Director's office will ensure that the supervisors provide complete and timely certification for staff and that the documentation is effectively retained and stored in a central location***

Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of Child Support Enforcement
Fiscal Year	2010
Reference Number	10-CSE-02
Related Prior Year Findings	09-CSE-01
Program Name (CFDA No.)	Child Support Enforcement (93.563, S-93.563)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Special Test and Provisions- Enforcement of Support Obligations
Criteria	**Enforcement of Support Obligations (Per A-133 June 2010 Compliance Supplement)** For call cases referred to the IV-D agency or applying for services under 45 CFR section 302.33 or 45 CFR section 309.65(a)(2) in which an obligation to support and the amount of the obligation has been established, the agency must maintain a system for (a) monitoring compliance with the support obligation; (b) identifying on the date the parent fails to make payments in an amount equal to support payable for one month, or an earlier date in accordance State or tribal law, those cases in which there is a failure to comply with the support obligation; and (c) enforcing the obligation. To enforce the obligation the agency must initiate income withholding, if required by and in accordance with 45 CFR section 303.100 or 45 CFR section 309.110. State IV-D agencies must initiate any other enforcement action, unless service of process is necessary, within 30 calendar days of identification of the delinquency or other support-related noncompliance, or location of the absent parent, whichever occurs later. If service of process is necessary, service must be completed and enforcement action taken within 60 calendar days of identification of the delinquency or other noncompliance, or the location of the absent parent whichever occurs later. If service of process is unsuccessful, unsuccessful attempts must be documented and meet the State's guidelines defining diligent efforts. If enforcement attempts are unsuccessful, the State IV-D agency should determine when it would be appropriate to take an enforcement action in the future and take it at that time (45 CFR section 303.6). Optional enforcement techniques available for use by the State's are found at 45 CFR sections 303.71, 303.73, and 303.104.
Condition	For 1 of 65 support obligation cases sampled, the non-custodial parent (NCP) was delinquent on paying child support for more than 60 days and the agency did not initiate enforcement (i.e. court petition) within the required timeframes.
Cause	Non-compliance with the enforcement of support obligations was due to lack of oversight by the assigned case employee worklist and supervisor.
Effect	If action is not taken within the required time frames, the client (custodial parent) may not receive the child support payments entitled to them.
Recommendation	We recommend that management strengthen internal controls, including the following initiatives: 1. Worklist management initiative 2. Training initiative 3. Redistribution of caseloads 4. Division of Child Support Enforcement/Division of Social Services interface

	5. New DACSES system
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	While DCSE concurs with the findings, we are also pleased with the progress made in this area since last year's Single Audit. The Division of Child Support Enforcement has taken and will continue to take the following corrective actions in response to this finding. The following points address the recommendations contained in the finding in the order they are listed. • **Work list management initiative** Phase I: Eliminate the creation of duplicate work list items. **Completed September 5, 2004** Phase II: Consolidation of the creation of the work list items, including a new hierarchy of the work list items. **Completed April 17, 2005** Phase III: Will adjust the processing and timing of interstate related cases and remove the isolated absent parent locate function (APLS), giving that function to all caseworkers. **Completed June 20, 2007** Phase IV: All processes and work lists should allow cases to be worked until eventual completion without the indefinite suspension of any case minus some form of notification or processing by an automated function. The second goal of this phase requires an analysis of the priority schemes applied to Work List items. **Completed June 2010** Phase V: Evaluation Completion of the total Work List Management initiative was completed in December 2010, with that being said management will from time to time work with Division systems staff to ensure Worklist functionality is still meeting the intent of this initiative. • **Training initiative** DACSES Work List Management training was conducted statewide with division employees. In accordance with this recommendation, the training was part of the ongoing work-list management initiative to assist DCSE staff with better manage of their overall caseload and in accordance with Federal case processing guidelines. The training was developed to enable staff to be able to navigate and manage a work-list utilizing the new functionalities in the Work List Management screen. Work List Management training will continue on a regular basis to DCSE employee. **Completed, But On-Going June 9, 2006, June 21, 2006, January 27, 2010, and March 31, 2010, and 2011.**

	The DCSE Training Unit during the past fiscal year (2011) conducted 10 Worklist Maintenance classes for Operation's unit staff statewide. Worklist Maintenance training occurs as a stand alone course of study and open computer lab opportunities. The open computer lab time offers employees one on one attention in handling worklists management issues with an experienced trainer. This will continue to be an ongoing process as the DCSE Training Unit offers an open computer lab for staff to fine tune work list management skills. • **Redistribution of caseloads** DCSE will redistribute caseloads so that staff is responsible for specific tasks on multiple types of cases. To do this, Child Support Specialists (CSS) will be placed into two primary functional categories: Establishment Workers and Enforcement Workers. Establishment Workers will be responsible for a case from the time of application/intake until the time a support order is established. Among their primary duties (in addition to establishing an order) will be parent locate and paternity establishment. Enforcement Workers will be responsible for a case from the time the order is recorded until the case is closed, taking all required enforcement and modification action necessary to properly work the case. There will be two exceptions to the Caseload Redistribution initiative. Dedicated workers will handle Foster Care cases and cases in which the Non-Custodial Parent resides out of state (known as APO cases), from intake to case closure. A statewide Foster Care Unit will be established in New Castle County, while APO workers will be deployed in each county. Mandatory training that covers all aspects of case processing remains in development and will be provided to all Child Support Specialists prior to the redistribution of cases. **Completed January 22, 2008** • **Division of Child Support Enforcement/Division of Social Services interface** Our automatic interface of medical insurance information with the Division of Social Services /Medicaid began May 16, 2008. DCSE staff no longer needs to send paper copies of our DCSE medical questionnaire to the Medicaid office, as information entered into DACSES is sent via the interface once a month. Effective October 2008, DACSES now enters a notation on the case events screens when information is sent via the interface. The entry will appear for all cases sent to Medicaid, starting with May 2008 data. **Completed October 2008** The DSS interface will be reengineered with the implementation of the new DACSES system scheduled for completion in FY 2013. • **New post-court DACSES screen- (action taken different than original corrective action plan);** The data necessary for the medical interface is currently captured in other areas of

	DACSES. Management has decided not to implement the post-court screen and will upgrade the existing functionality when DACSES is replaced. • **National medical support notice** DCSE fully implemented the National Medical Support Notice. **Completed July of 2004** • **New DACSES system (partially corrected)** The implementation phase for the DACSES replacement system – now called DECSS began on June 1, 2010. A kickoff meeting was held on June 10, .2010. It is anticipated that the new system with go-live in the Fall of 2013.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	• **Training initiative** DACSES Work List Management training was conducted statewide with division employees. In accordance with this recommendation, the training was part of the ongoing work-list management initiative to assist DCSE staff with better manage of their overall caseload and in accordance with Federal case processing guidelines. The training was developed to enable staff to be able to navigate and manage a work-list utilizing the new functionalities in the Work List Management screen. Work List Management training will continue on a regular basis to DCSE employee. June 9, 2006, June 21, 2006, January 27, 2010, and March 31, 2010, and 2011. The DCSE Training Unit during the past fiscal year (2011) conducted 10 Worklist Maintenance classes for Operation's unit staff statewide. Worklist Maintenance training occurs as a stand alone course of study and open computer lab opportunities. The open computer lab time offers employees one on one attention in handling worklists management issues with an experienced trainer. This will continue to be an ongoing process as the DCSE Training Unit offers an open computer lab for staff to fine tune work list management skills. • **Division of Child Support Enforcement/Division of Social Services interface** The DSS interface will be reengineered with the implementation of the new DACSES system scheduled for completion in FY 2013. • **New DACSES system (partially corrected)** The implementation phase for the DACSES replacement system – now called DECSS began on June 1, 2010. A kickoff meeting was held on June 10, .2010. It is anticipated that the new system with go-live in the Fall of 2013.
Anticipated Completion Date (if not Fully corrected).	• **Training initiative-**Completed, But On-Going • **Division of Child Support Enforcement/Division of Social Services interface** FY 2013. • **New DACSES system (partially corrected)** Fall of 2013

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of Child Support Enforcement
Fiscal Year	2010
Reference Number	10-CSE-03
Related Prior Year Findings	09-CSE-01
Program Name (CFDA No.)	Child Support Enforcement (93.563, S-93.563)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Special Test and Provisions – Establishment of Paternity and Support Obligation
Criteria	**Establishment of Paternity and Support Obligations (Per A-133 June 2010 Compliance Supplement)** The IV-D agency must attempt to establish paternity and a support obligation for children born out of wedlock. The agency must establish a support obligation when paternity is not an issue. These services must be provided for any child in cases referred to the IV-D agency or to individuals applying for services under 45 CFR section 302.33 or 45 CFR section 309.65(a)(2) for whom paternity or a support obligation had not been established (45 CFR sections 303.4 and 303.5, 45 CFR sections 309.100 and 309.105). For State IV-D agencies, these services must be provided within the time frames specified in 45 CFR sections 303.3(b)(3) and (b)(5), 303.3(c) and, 303.4(d).
Condition	For 4 of 65 support obligation cases sampled, paternity was not established or attempted to be established within the required timeframes for children born out of wedlock.
Cause	Non-compliance with the establishment of paternity and support obligations was due to lack of oversight by the assigned case employee worklist and supervisor.
Effect	If action is not taken within the required timeframe to establish paternity, when applicable, court petitions and support obligations cannot be established.
Recommendation	We recommend that management continue with its corrective action plan including the following initiatives: 1. Worklist management initiative 2. Training initiative 3. Redistribution of caseloads 4. Division of Child Support Enforcement/Division of Social Services interface 5. New DACSES system
Questioned Costs	Questioned costs associated with this finding are undeterminable as there is no record maintained by the program as to the actual support obligation assigned to the non-custodial parent (NCP).
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	While DCSE concurs with the findings, we are also pleased with the progress made in this area since last year's Single Audit. The Division of Child Support Enforcement has taken and will continue to take the following corrective actions in response to this finding.

	The following points address the recommendations contained in the finding in the order they are listed. • **Work list management initiative** Phase I: Eliminate the creation of duplicate work list items. **Completed September 5, 2004** Phase II: Consolidation of the creation of the work list items, including a new hierarchy of the work list items. **Completed April 17, 2005** Phase III: Will adjust the processing and timing of interstate related cases and remove the isolated absent parent locate function (APLS), giving that function to all caseworkers. **Completed June 20, 2007** Phase IV: All processes and work lists should allow cases to be worked until eventual completion without the indefinite suspension of any case minus some form of notification or processing by an automated function. The second goal of this phase requires an analysis of the priority schemes applied to Work List items. **Completed June 2010** Phase V: Evaluation Completion of the total Work List Management initiative was completed in December 2010, with that being said management will from time to time work with Division systems staff to ensure Worklist functionality is still meeting the intent of this initiative. • **Training initiative** DACSES Work List Management training was conducted statewide with division employees. In accordance with this recommendation, the training was part of the ongoing work-list management initiative to assist DCSE staff with better manage of their overall caseload and in accordance with Federal case processing guidelines. The training was developed to enable staff to be able to navigate and manage a work-list utilizing the new functionalities in the Work List Management screen. Work List Management training will continue on a regular basis to DCSE employee. **Completed, But On-Going June 9, 2006, June 21, 2006, January 27, 2010, and March 31, 2010, and 2011.** The DCSE Training Unit during the past fiscal year (2011) conducted 10 Worklist Maintenance classes for Operation's unit staff statewide. Worklist Maintenance training occurs as a stand alone course of study and open computer lab opportunities. The open computer lab time offers employees one on one attention in handling worklists management issues with an experienced trainer. This will continue to be an ongoing process as the DCSE Training Unit offers an open computer lab for staff to fine tune work list management skills.

	• **Redistribution of caseloads** DCSE will redistribute caseloads so that staff is responsible for specific tasks on multiple types of cases. To do this, Child Support Specialists (CSS) will be placed into two primary functional categories: Establishment Workers and Enforcement Workers. Establishment Workers will be responsible for a case from the time of application/intake until the time a support order is established. Among their primary duties (in addition to establishing an order) will be parent locate and paternity establishment. Enforcement Workers will be responsible for a case from the time the order is recorded until the case is closed, taking all required enforcement and modification action necessary to properly work the case. There will be two exceptions to the Caseload Redistribution initiative. Dedicated workers will handle Foster Care cases and cases in which the Non-Custodial Parent resides out of state (known as APO cases), from intake to case closure. A statewide Foster Care Unit will be established in New Castle County, while APO workers will be deployed in each county. Mandatory training that covers all aspects of case processing remains in development and will be provided to all Child Support Specialists prior to the redistribution of cases. **Completed January 22, 2008** • **Division of Child Support Enforcement/Division of Social Services interface** Our automatic interface of medical insurance information with the Division of Social Services /Medicaid began May 16, 2008. DCSE staff no longer needs to send paper copies of our DCSE medical questionnaire to the Medicaid office, as information entered into DACSES is sent via the interface once a month. Effective October 2008, DACSES now enters a notation on the case events screens when information is sent via the interface. The entry will appear for all cases sent to Medicaid, starting with May 2008 data. **Completed October 2008** The DSS interface will be reengineered with the implementation of the new DACSES system scheduled for completion in FY 2013. • **New post-court DACSES screen- (action taken different than original corrective action plan);** The data necessary for the medical interface is currently captured in other areas of DACSES. Management has decided not to implement the post-court screen and will upgrade the existing functionality when DACSES is replaced. • **National medical support notice** DCSE fully implemented the National Medical Support Notice. **Completed July of 2004**

	• **New DACSES system (partially corrected)** The implementation phase for the DACSES replacement system – now called DECSS began on June 1, 2010. A kickoff meeting was held on June 10, .2010. It is anticipated that the new system with go-live in the Fall of 2013.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	• **Training initiative** DACSES Work List Management training was conducted statewide with division employees. In accordance with this recommendation, the training was part of the ongoing work-list management initiative to assist DCSE staff with better manage of their overall caseload and in accordance with Federal case processing guidelines. The training was developed to enable staff to be able to navigate and manage a work-list utilizing the new functionalities in the Work List Management screen. Work List Management training will continue on a regular basis to DCSE employee. June 9, 2006, June 21, 2006, January 27, 2010, and March 31, 2010, and 2011. The DCSE Training Unit during the past fiscal year (2011) conducted 10 Worklist Maintenance classes for Operation's unit staff statewide. Worklist Maintenance training occurs as a stand alone course of study and open computer lab opportunities. The open computer lab time offers employees one on one attention in handling worklists management issues with an experienced trainer. This will continue to be an ongoing process as the DCSE Training Unit offers an open computer lab for staff to fine tune work list management skills. • **Division of Child Support Enforcement/Division of Social Services interface** The DSS interface will be reengineered with the implementation of the new DACSES system scheduled for completion in FY 2013. • **New DACSES system (partially corrected)** The implementation phase for the DACSES replacement system – now called DECSS began on June 1, 2010. A kickoff meeting was held on June 10, .2010. It is anticipated that the new system with go-live in the Fall of 2013.
Anticipated Completion Date (if not Fully corrected).	• **Training initiative** Completed, But On-Going • **Division of Child Support Enforcement/Division of Social Services interface** FY 2013. • **New DACSES system (partially corrected)** Fall of 2013

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of Child Support Enforcement
Fiscal Year	2010
Reference Number	10-CSE-04
Related Prior Year Findings	09-DHSS-02, 09-DHSS-03
Program Name (CFDA No.)	Child Support Enforcement (93.563, S-93.563)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Suspension & Debarment
Criteria	Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).
Condition	The State has implemented a "boiler-plate" contract which states that they (the vendor) are neither suspended nor debarred from Federal procurement and non-procurement transactions. One contract for $617,586, out of three contracts tested with a total value of $1,093,048, did not include the suspension and debarment language in the contract or contract amendment signed by the vendor. The total population of contracts exceeding $25,000 for this program was $2,527,487. The Excluded Parties List System (EPLS) was reviewed during the audit process, and none of the vendors included in the testing was on the EPLS.
Cause	Contract amendments standard language has not been updated to include suspension and debarment language for modification to contracts prior to 2009 or to contract extensions.
Effect	The Program may award federally funded contracts to disallowed vendors at the time of the amendment.
Recommendation	We recommend that all new contracts and amendments include the new suspended and debarred language as required by the compliance supplement.
Questioned Costs	We noted that this is not a compliance issue as the vendors tested were not on the EPLS listing.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	We will review contract boilerplate prior to execution to assure that the suspension and debarment language is included.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐

	No longer warranting further action.☐
Description of Status	Both DCSE and DMS are reviewing new contracts to assure that the suspension and debarment language is included.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of Child Support Enforcement
Fiscal Year	2010
Reference Number	10-CSE-05
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Child Support Enforcement (93.563, S-93.563)
Type of Finding	Material Weakness
Compliance Requirement(s)	Reporting
Criteria	The Delaware Child Support Enforcement Program is required to report the federal share of net disbursements on a quarterly basis on the SF-272, Federal Cash Transactions Report.
Condition	Based on our review of the June 30, 2010 SF-272 Non-ARRA Report for the Child Support Enforcement Program, the federal share of net disbursements were $8,000,000 higher than the amount recorded on Delaware Financial Management System (DFMS) for the same period. The federal share of net disbursements for the fiscal year 2010 amounted to $10,965,673.
Cause	Because of a typo that occurred when creating the report, the federal share of net disbursements did not agree to DFMS.
Effect	The amount of federal share of net disbursements was incorrectly stated on the Report and could not be easily reconciled to DFMS.
Recommendation	We recommend that the Child Support Enforcement Program enhances its reporting procedures and processes to ensure all reports are reconciled to DFMS to DFMS prior to being submitted.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	Effective immediately, the Divisions Fiscal management analyst will be required to reconcile the Federal reports to FSF system and report on the reconciliation prior to submitting the reports for approval.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The fiscal management analyst reviews and reconciles the report and the Senior Fiscal Administrative Officer verifies the figures before submission.
Anticipated Completion Date (if not Fully corrected).	

Agency	Department of Health and Social Services Division of Public Health
Fiscal Year	2010
Reference Number	10-DPH-01
Related Prior Year Findings	09-DPH-01
Program Name (CFDA No.)	Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468) Special Supplemental Nutrition Program for Women, Infants and Children (10.557) Immunization Cluster (93.268, S-93.268, S-93.712)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Allowable Costs (Effort Reporting)
Criteria	Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems, which use sampling methods, must meet acceptable statistical sampling standards, including:

	• The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results. • The entire time period being sampled. • The results must be statistically valid and applied to the period being sampled. (OMB circular A-87, Attachment B.8.h.6)
Condition	DWSRF During our testwork over time and effort reporting, we noted two employees out of 40 tested whose time and effort report that covers the pay periods end date 8/15/2009, 10/10/2009, 12/5/2009, and 2/13/2010 were not completed. The salary paid to the employees for the pay periods noted amounted to $10,504 out of $64,749 sampled. The total payroll for the program was $846,039. WIC During our testwork over time and effort reporting, we noted one employee out of 65 tested whose time and effort report that covers the pay period end date 8/15/2009 was not completed. The salary paid to the employees for the pay period noted was $1,971 out of the $78,647 sampled. The total payroll for the program was $2,035,628. Immunization During our testwork over time and effort reporting, we noted two employees out of 65 tested whose time and effort report that covers the pay period end date 12/5/2009 were not completed. The salary paid to the employees for the pay period noted amounted to $390 out of the $65,457 sampled. The total payroll for the program was $876,614.
Cause	*DWSRF, WIC, and Immunization* The budgeted amounts in the PHRST payroll system were used to calculate the amounts to be charged for an employee's pay. The budgeted amounts are used to post to the ledger, and time and effort certifications were not completed for all employees to enable the programs to adjust to the actual effort, or document the fact that the employee worked in one program for the last semi-annual period.
Effect	*DWSRF, WIC, and Immunization* Salaries and benefits of employees who work on federal programs are being charged to federal grants without proper documentation.
Recommendation	We recommend that all certifications be completed in a timely manner and be maintained on file as support for each employee's time charged to a grant, and any difference between budgeted hours and certified hours get adjusted in a timely manner.
Questioned Costs	*DWSRF* Questioned costs are $10,504, which represents the salary paid to two employees for the 8/15/09, 10/10/09, 12/5/09, and 2/13/10 pay periods. *WIC* Questioned costs are $1,971, which represents the salary paid to the one employee for the 8/15/09 pay period. *Immunization* Questioned costs are $390, which represents the salary paid to the employees for the 12/5/09 pay period.
Agency Contact	Harry Roberts, DHSS Controller

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Name	
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	The DWSRF incomplete time and effort reports cited for the Public Health Treatment Program Administrator and the Information Systems Support Specialist were the result of an administrative oversight on the part of the Office of Drinking Water. Clearly the Public Health Treatment Program Administrator who controls the Office of Drinking Water worked solely on the Drinking Water Program. The Information Systems Support Specialist who is responsible for the Drinking Water computer systems clearly worked solely on the Drinking Water Program. The Immunization incomplete time and effort reports cited for the Registered Nurse and the Administrative Specialist were the result of an administrative oversight on the part of the Immunization Program. These two employees were assigned to and work solely on the Immunization Program. Clearly there salaries charges are allocable exclusively to the Immunization Program. The WIC incomplete time and effort reports cited for the State Service Center WIC Program Supervisor was the result of an administrative oversight by the WIC Program that resulted in the report being unsigned by the employee's supervisor. Clearly the WIC Program Supervisor works solely on the WIC Program as the Northern Health Services Supervisor. Her salary charges are exclusively allocable to the WIC program. The DPH Budget and Financial Services Bureau will stress with each program and section through written periodic communication the necessity of completing employee time and effort reports and retaining documentation as required by OMB Circular A-87. A Management Analyst III has been assigned responsibility in the Budget and Financial Services Bureau for monitoring compliance within DPH.
Finding Status	Fully Corrected. ☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Immunization Program Timekeeper is obtaining signed time certifications within 30 days after the affected quarter. This information is then supplied to the Management Analyst to maintain on file. Drinking Water Program quarterly time certifications are collected and filled with each section. WIC Program time and effort reports are obtained for all required staff and maintained in the WIC Administrative Office.
Anticipated Completion Date (if not Fully corrected).	

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Agency	Department of Health and Social Services Division of Public Health
Fiscal Year	2010
Reference Number	10-DPH-02
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Special Supplemental Nutrition Program for Women, Infants and Children (10.557)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Reporting
Criteria	FNS-798A, *Addendum to WIC Financial Management and Participation Report - NSA Expenditures (OMB No. 0584-0045)* - State agencies prepare the FNS-798A annually to report: (1) NSA expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined. FNS uses the amounts reported in nutrition education and breast-feeding promotion and support, two of the four functional categories on the FNS-798A, to determine whether the State agencies met the statutory minimum spending level for those functions.
Condition	During our review of the FNS-798A, Annual Closeout Report for the 2010 WIC grant, we noted that insufficient documentation was maintained in order to ensure the accuracy of amounts being reported to the USDA. The administrative costs of $3,951,000 agreed to the amounts in the Delaware Financial Management System (DFMS), the State's accounting system, in total; however, the breakout of the administrative costs on the FNS-798A could not be determined to be accurate based on the supporting documentation maintained by the agency.
Cause	Proper supporting documentation was not maintained in order to clearly reconcile amounts reported to the State's accounting system (DFMS).
Effect	NSA expenditures by function for the period being reported may be misstated.
Recommendation	We recommend that the program's policies and procedures be amended to ensure that all appropriate supporting documentation and schedules are maintained to show how amounts reported reconcile to the State's accounting system (DFMS).
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	As the result of the loss of a critical employee due to a serious illness, the necessary supporting documentation was not maintained to ensure the accuracy of amounts reported to the USDA on the FNS- 798A report. It should be pointed out that lack of documentation had not been noted in previous years. Subsequently, the Division of Public Health (DPH) prepared and submitted on January 20, 2011, a revised final report that is now properly supported and the breakout of administrative costs on the report are accurate based on supporting documentation. By way of corrective action, DPH has revised how the fiscal documentation is maintained,

	reviewed, and approved through enhanced supervisory oversight in the WIC program to avoid any reoccurrence.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The critical employee has returned to work and written procedures now include supporting documentation standards as well as the review and approval of this program's financial reports and the staff person's related work.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
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Agency	Department of Health and Social Services Division of Public Health
Fiscal Year	2010
Reference Number	10-DPH-03
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Subrecipient Monitoring
Criteria	Per the State's *Subrecipient Monitoring Procedures for the Water Pollution Control Revolving Fund and the Drinking Water State Revolving Fund* "Subrecipients will receive a Compliance Certification form from FAB (Financial Assistance Branch) at the close of their respective fiscal year, which they are required to complete and return." Pass-through entities are required to review financial and performance reports submitted by its subrecipients. They must also ensure that subrecipients receiving more than $500,000 of federal money comply with single audit requirements of A-133. They must also perform certain during the award monitoring of the sub-recipient's use of Federal awards through reporting, site visits, regular contact, or other means. The requirements for subrecipient monitoring are contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), OMB Circular A-133 (§___.225, §___.310(d)(5), §___.400(d)), A-102 Common Rule (§___.37 and §___.40(a)), and OMB Circular A-110 (2 CFR section 215.51(a)), program legislation, **Section 1512(h) of ARRA, 2 CFR section 176.50(c),** Federal awarding agency regulations, and the terms and conditions of the award. Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (*OMB No. 1215-0149*).
Condition	During our review of the Subrecipient Monitoring procedures for the Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) program, we noted the following: 1) Subrecipient A-133 Audit Compliance Certifications were not mailed out to the subrecipients in accordance with State policy (telephone conversations were used instead of official confirmation). 2) Documentation over the subrecipients' financial information and A-133 single audit reports was unavailable for testing as the review procedures of the 2009 sub-recipient information was not completed at the time of our audit procedures, 13 months after calendar year 2009 ended. 3) Documentation evidencing the Office of Drinking Water's (ODW) site visits to each sub-

	recipient was not maintained to support compliance with "during the period of award monitoring" federal compliance requirements. 4) Sufficient documentation was not maintained to evidence that the ODW is properly ensuring that the agreements between the subcontractors and the subrecipients include the proper required federal regulations by the Environmental Protection Agency (EPA) and under American Recovery and Reinvestment Act (ARRA). 5) The State requires its subrecipients to provide them with monthly certifications that the subrecipients obtained weekly certified payrolls from their contractors to ensure they are in compliance with Davis- Bacon Act requirements. In our sample of two of the ten subrecipients with active projects during the year ended 6/30/10, we noted that for the Town of Smyrna, no certified payroll letters were received from the sub-recipient during the year ended 6/30/10. A letter was received outside of the audit period, on 8/20/10, certifying all payrolls from 12/21/09 through 7/6/10; however, the project began in September of 2009 and there was no evidence that the State ensured proper compliance with Davis Bacon for the time period prior to 12/21/09.
Cause	Due to staffing constraints, the State was unable to mail the forms in a timely manner. Additionally, proper supporting documentation with evidence of review (signature/sign-off) is not being maintained to evidence that sufficient during the award period monitoring is being performed.
Effect	Subrecipient monitoring is not being performed and federal funds passed to subrecipients may not be spent in accordance with the grant program.
Recommendation	We recommend that all policies and procedures are followed and that timely monitoring of subrecipient A-133 audit requirements is performed to ensure they are in compliance with all federal guidelines. We also recommend that the State prepare and maintain any checklists or summaries of review findings when performing site visits to show proper evidence that the site visit is being performed and document all procedures performed during the visit to ensure that the subrecipient is complying with federal regulations. These checklists and summaries should include proper sign off by the individuals performing the site visit and be reviewed by a manager to ensure that the conclusions reached by the preparer are appropriate and that any necessary follow up is being performed if deficiencies were identified. Managers should sign the checklist or summaries as evidence their review. We also recommend that the State consider obtaining contracts between the sub-recipient and its contractors and review them for approval prior to the agreement being executed. Evidence of review of the contract should be maintained for audit purposes. We recommend that the State withhold disbursement requests from those subrecipients that are not supplying the State with timely monthly certifications. We also recommend that the State ensure that they receive these certifications or perform other procedures to verify subrecipient compliance with Davis Bacon requirements.
Questioned Costs	Questioned costs of the $17.1 million sub-granted are not determinable.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective	Title 29 Delaware Code Chapter 79 states that the Department of Natural Resources and

Action Plan	Environmental Control (DNREC), is responsible for the Subrecipient Monitoring Procedures for the Drinking Water State Revolving Fund. As such, the Department of Health and Social Services (DHSS) Division of Public Health (DPH) Drinking Water Program (DWP) has oversight responsibility regarding DNREC's function in performing subrecipient monitoring. DHSS/DPH/DWP is planning to contract with an independent outside accounting firm to perform the subrecipient monitoring function. The contractor will be required to report the results of its monitoring to the Drinking Water Program (DWP) and to DPH on a quarterly basis. The contractor will be required to ensure that all policies and procedures are followed and that timely monitoring of subrecipient A-133 audit requirements is performed to ensure they are in compliance with all federal guidelines. The contractor will be required to prepare and maintain checklists and summaries of review findings when performing site visits to show proper evidence that the site visit is being performed and document all procedures performed during the visit to ensure that the subrecipient is complying with federal regulations. These checklists and summaries should include proper sign off by the individuals performing the site visit and be reviewed by a manager to ensure that the conclusions reached by the preparer are appropriate and that any necessary follow up is being performed if deficiencies were identified. Managers will sign the checklist and summaries as evidence of their review. DHSS/DPH/DWP will require contracts between subrecipients and their contractors and will review them for approval prior to the agreement being executed. Evidence of the review of the contract will be maintained by DWP for audit purposes. DHSS/DPH/DWP will withhold disbursement requests from those subrecipients that are not supplying the State with timely monthly certifications. DHSS/DPH/DWP will ensure that either the certifications are received or will perform other procedures to verify subrecipient compliance with Davis Bacon requirements.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	RFP HSS #11-068 has been published to contract subrecipient services through an independent accounting firm. Bids will close on July 21, 2011. The work formerly done by DNREC will be the responsibility of the new contractor. Contracts between subrecipients and contractors will be reviewed for EPA and ARRA regulations by the new contractor. There have been no Davis Bacon issues that would require the withholding of funds.
Anticipated Completion Date (if not Fully corrected).	The new contract will begin on October 1, 2011

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Agency	Department of Health and Social Services Division of Public Health
Fiscal Year	2010
Reference Number	10-DPH-04
Related Prior Year Findings	09-DHSS-02, 09-DHSS-03
Program Name (CFDA No.)	Immunization Cluster (93.268, S-93.268, S-93.712)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Suspension and Debarment
Criteria	Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).
Condition	The State has implemented a "boiler-plate" contract which states that they (the vendor) are neither suspended nor debarred from Federal procurement and non-procurement transactions. One contract for $76,026, out of two contracts tested with a total value of $112,947, did not include the suspension and debarment language in the contract or contract amendment signed by the vendor. The total population of contracts exceeding $25,000 for this program was $407,897. The Excluded Parties List System (EPLS) was reviewed during the audit process, and none of the vendors included in the testing was on the EPLS.
Cause	Contract amendments standard language has not been updated to include suspension and debarment language for modification to contracts prior to 2009 or to contract extensions.
Effect	The Program may award federally funded contracts to disallowed vendors at the time of the amendment.
Recommendation	We recommend that all new contracts and amendments include the new suspended and debarred language as required by the compliance supplement.
Questioned Costs	We noted that this is not a compliance issue as the vendors tested were not on the EPLS listing.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	As background, the vendor's contract was used as the instrument to enter into a contractual relationship – not the DHSS boilerplate. Unfortunately Health did not conduct a review of the EPLS listing at the time the contract was signed. The vendor's contract was amended on 8/4/10 and on that date DPH did review the EPLS listing and provided documentation that the review was conducted.

	Additionally, DHSS/DPH has taken the following corrective action to address the concerns of this finding. Whenever a contract is entered into by DPH or an amendment processed, staff conducts a review of the EPLS listing and documents the review to the file. Additionally, if the contract to be executed employs the DHSS boilerplate, they ensure that the suspension and debarment language is contained in the boilerplate.
Finding Status	Fully Corrected. ☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Suspension and Debarment language has been added to DHSS contracts.
Anticipated Completion Date (if not Fully corrected).	

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Agency	Department of Health and Social Services Division of Public Health
Fiscal Year	2010
Reference Number	10-DPH-05
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Special Supplemental Nutrition Program for Women, Infants, and Children (10.557)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Eligibility
Criteria	Per the State's *Policy and Procedure Manual* for the WIC Program, Section 10.4 *WIC Eligibility and Participant and Employee Fraud and Abuse Detection Activities,* "A random sample of 30 client records are selected and reviewed by the WIC State Agency designated staff every 6 months. This review is conducted to monitor for eligibility and the detection and prevention of employee and participant fraud and abuse, including one employee determining eligibility for all certification criteria and issuing benefits for the same participant (there must be separation of duties)."
Condition	During our review of WIC controls over Eligibility, we noted that the State's procedures required reviewing a sample of 30 WIC participant files for eligibility every 6 month period during the year. When the sample was requested, we noted that the procedures were not performed during FY 2010.
Cause	The cause was a lack of program oversight.
Effect	Possible fraudulent activity could go undetected and ineligible participants may receive and obtain benefits from the WIC program.
Recommendation	We recommend that the policies of section 10.4 of the Policy and Procedure Manual be put in place by the WIC program to select 30 clients for eligibility screenings for every 6 month period.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	We agree that the random sample of 30 clients was not performed. We would like to report that subsequent to this audit, random samples were taken of 30 certified participants for each of the following time periods: 6/01/09-11/30/09, 12/01/09-5/30/10, and 6/01/10-11/30/10. Each sampled participant was reviewed for proof of residency, proof of income, Delaware address, Rx for special formula, correct risk codes, correct food package, and separation of employee duties in determining eligibility. These reviews did not detect any ineligible participants or any employee or participant fraud and abuse. Program oversight has been strengthened to ensure compliance with this requirement. The next review period sample will be for the period 12/1/10-5/30/11.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of	A random sample of 30 client files is now being performed every 6 months as required.

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Status	
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
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Agency	Department of Health and Social Services Division of Public Health
Fiscal Year	2010
Reference Number	10-DPH-06
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Capitalization Grants for State Drinking Water Revolving Funds (S-66.468) Immunization Cluster (S-93.712)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Reporting – Section 1512
Criteria	Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients no later that the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009). The Delaware OMB 1512 Reporting Instruction Manual also states, "Prime recipients and approved delegated sub-recipients must also complete and have appropriate signed approval from the agency head for each report filed prior to uploading to the federal reporting system. A form for this purpose can be located at http://ww.omb.delaware.gov/arra/index.html and a copy is to be emailed to OMB_ARRA1512@state.de.us or faxed to (302)739-5661. "Copies of the final spreadsheet uploaded to the federal reporting system, as well as the sign-off sheet are to be emailed to OMB_ARRA1512@state.de.us. The Delaware OMB 1512 Reporting Instruction Manual also states "Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as "instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity." A significant reporting error is defined as "instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will my misled or confused by the recipient report in question. "The Prime recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report. The Delaware OMB 1512 Reporting Instruction Manual states "Data quality (i.e. accuracy, completeness and timely reporting of information) reviews required by the OMB June 22, 2009 Guidance are intended to avoid two key data problems – material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Subrecipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and subrecipients should establish internal controls to ensure completeness, accuracy, and timely reporting of all amounts funded by the Recovery Act." In addition, the State of Delaware OMB/DOA ARRA of 2009 Internal Control Guideline dated November 24, 2009 states "Organizations must set up a process for review of data quality to ensure information submitted for reporting the use of ARRA funds is accurate and

	timely.
Condition	The Division of Public Health did not submit the ARRA 1512 Report Approval Record for the Immunization and Capitalization Grants for State Drinking Water Revolving Funds grants to OMB for the reporting period ending March 31, 2010 as required by the Delaware OMB 1512 Reporting Instruction Manual.
Cause	The Division of Public Health was not aware of the requirement to send the ARRA 1512 Report Approval Record. There was also no procedure in place for adequate management review of the supporting documentation and 1512 report before it was submitted to federalreporting.gov.
Effect	The purpose of the approval form is to ensure that there are no material omissions or significant reporting errors in the quarterly report. Failure to certify the accuracy of the report does not ensure the reported information is complete and accurate. Lack of management review and clear supporting documents may leave errors undiscovered. Without proper review and approval, reported information may be inaccurate.
Recommendation	The Division of Public Health should ensure the quality of the reported data by adequately reviewing the information before submitting it to the Federal government and should certify the review by submitting the ARRA 1512 Report Approval Record.
Questioned Costs	There are no questioned costs related to this finding.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	As a point of clarification, prior to report submission, the ARRA 1512 reports were and are reviewed by the Senior Fiscal Administrative Officer. In addition, the Management Analyst III in the Contracts and Grants Office conducts the online submission and corrects any noted errors or omissions. The Division of Public Health will put in place the procedure requiring that the ARRA 1512 report approval form is completed.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The Senior Fiscal Administrative Officer prepares the ARRA 1512 reports and in conjunction with the Contracts and Grants Management Analyst III submits the required reports.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
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June 30, 2011

Agency	Department of Health and Social Services Division of Public Health
Fiscal Year	2010
Reference Number	10-DPH-07
Related Prior Year Findings	09-DHSS-02, 09-DHSS-03
Program Name (CFDA No.)	Public Health Emergency Preparedness (93.069)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Suspension and Debarment
Criteria	Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).
Condition	The State has implemented a "boiler-plate" contract which states that they (the vendor) are neither suspended nor debarred from Federal procurement and non-procurement transactions. One contract for $29,904, out of a sample of 4 contracts with a total value of $1,667,598, did not include the suspension and debarment language, nor was there a certification obtained from the vendor or documentation of the review of the Excluded Parties List System (EPLS). The total population of contracts exceeding $25,000 for the program was $3,678,003. The EPLS was reviewed during the audit process, and the vendor was not on the EPLS.
Cause	The contract used was the not the State's boiler plate contract.
Effect	The Program may award federally funded contracts to disallowed vendors.
Recommendation	We recommend that the State implements procedures to review the suspension and debarment status on vendors when non standard contracts are signed or the boiler-plate contract is not used.
Questioned Costs	There are no questioned costs associated with this finding as the vendor was not suspended or debarred.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	The DHSS contract format used for the contract in question was for non-professional services. Unfortunately the content of the non-professional services contract has not been updated to include the suspension and debarment language. The procurement section of the Division of Management Services will be updating the content of the standard contract format to include this language.
Finding Status	Fully Corrected.☒

	Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	Update: The DHSS non-professional services contract (1.General) states that the conditions in the advertisement, general rules and conditions of the procurement (i.e. RFP, response proposal) etc. are made a part of the contract by reference. The RFP/proposal boilerplate was updated to include a phrase to account for the suspension and debarment certification in the proposal which is incorporated by reference into the final contract.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of Public Health
Fiscal Year	2010
Reference Number	10-DPH-08
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Immunization Cluster (93.268, S-93.268, S-93.712)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Special Tests and Provisions (Control, Accountability, and Safeguarding of Vaccine)
Criteria	Effective control and accountability must be maintained for all vaccine under the VFC program. Vaccine must be adequately safeguarded and used solely for authorized purposes (42 USC 1396s). This includes administration only to VFC program-eligible children, as defined in 42 USC 1396s(b)(2)(A)(i) through (A)(iv), regardless of the child's parent's ability to pay (42 USC 1396s(c)(2)(C)(iii)).
Condition	During our review of the Control, Accountability, and Safeguarding of Vaccine compliance requirements, we noted that none of the 21 site visits we reviewed included an examination of inventory records at the provider's office to ensure proper recording of receipt, transfer, and usage of vaccine. As such, we were unable to determine whether there is proper control, accountability, and safeguarding of vaccine at provider sites.
Cause	The program followed CDC guidance in the program operations guide when determining the procedures provided to the Texas Medical Foundation (TMF) and, as a result, did not require the examination of inventory records as required by federal regulations.
Effect	The program is not monitoring the providers control over the vaccine inventory.
Recommendation	We recommend the program's policies and procedures, and if necessary, the contract between the State and TMF be amended to ensure that inventory records are examined during site visits to ensure the proper recording of receipt, transfer, and usage of vaccine.
Questioned Costs	Questioned costs related to this finding are not determinable.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	Assessment of "Control, Accountability, and Safeguarding of Vaccine" is conducted in a variety of ways by the Immunization Program in accordance with CDC guidance. TMF conducts site visits with providers which include the VFC Provider Site Visit Questionnaire, Section I VFC Compliance. There are several questions on the questionnaire that address vaccine control, accountability and safeguarding (e.g., refrigeration/freezer temperatures, action taken if temperatures are out of range, differentiation of VFC and private stock vaccine in the storage units, effective vaccine rotation so that vaccine with shortest expiry is used first, etc.). The Immunization Program also requires providers to submit their current vaccine inventory with each vaccine order. In addition, the program requires the use of a Vaccine Return Form for vaccine that may be expired, spoiled or is no longer needed but is still viable. While not occurring frequently, the Immunization Program also employs a Vaccine Transfer Form for providers to use when transferring VFC vaccine between practices (after authorization from the Immunization Program). These forms must be submitted to the Immunization Program and are kept on file for each provider.

	During the audit period covered (July 1, 2009 – June 30, 2010), there were no specific requirements within the Program Operation Guide, as provided by the CDC, to examine provider inventory records, which is the documented basis for this audit finding. However, as indicated above, the Immunization Program does have processes and procedures in place to monitor vaccine control, accountability and safeguarding. The CDC just recently implemented the requirement to examine provider inventory records in their *VFC Operations Guide, Module 8 – Vaccine Accountability, page 4 – Written Accountability Policies, Publication Date: January 2011.* **"All grantees must develop, implement, maintain and when requested, submit to CDC written vaccine accountability policies. These written policies must address: . . .** **How provider vaccine inventory records are monitored to ensure that providers have adequate supplies of public and privately purchase vaccine . . ."** "(http://www.cdc.gov/vaccines/programs/vfc/downloads/vfc-op-guide/12-module-8.pdf)" Due to the evidence stated above, the Immunization Program concurs with this finding in that it was following CDC guidance for this audit period but because it has received new guidance from CDC effective January 2011, the program will develop a policy to address the monitoring, review and documentation of provider inventory records and will include this activity as part of the required elements of a provider site assessment. The program's policies and procedures are in place and up-to-date for this audit criteria and we are currently in a RFP process for provider site assessments. A new contract is anticipate to be in place by June 2011.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	This finding was discussed with the Contractor, Texas Medical Foundation (TMF). A policy is being developed which will address and provide corrective action to this finding.
Anticipated Completion Date (if not Fully corrected).	August 1, 2011

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of Public Health
Fiscal Year	2010
Reference Number	10-DPH-09
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Immunization Cluster (93.268, S-93.268, S-93.712)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Special Tests and Provisions (Record of Immunization)
Criteria	A record of vaccine administered shall be made in each person's permanent medical record (or in a permanent office log or file to which a legal representative shall have access upon request) (42 USC 300aa- 25) which includes: a. Date of administration of the vaccine; b. Vaccine manufacturer and lot number of the vaccine; and c. Name and address and, if appropriate, the title of the health care provider administering the vaccine.
Condition	During our review of the Record of Immunization compliance requirements, we noted that for 7 of the 21 Texas Medical Foundation (TMF) site visit reports, the provider was not in compliance with the requirements of Record of Immunization. Per discussion with the contract administrator, only verbal discussions were held with the providers to inform them that sufficient record of immunization requirements were not met. As no formal documentation of follow-up procedures was maintained, we were unable to determine if sufficient follow-up action was taken, as required by federal requirements.
Cause	Based on guidance from the CDC indicating that immunization records are not high priority, the procedures provided to the Texas Medical Foundation (TMF) by the Department of Public Health did not stipulate that more detailed follow up was required for this type of non-compliance.
Effect	The program is not in compliance with federal regulations.
Recommendation	We recommend the program's policies and procedures, and if necessary, the contract between the State and TMF be amended to ensure that written documentation exists of any follow up actions regarding noncompliance with federal regulations.
Questioned Costs	There are no known questioned costs related to this finding.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	Assessment of "record of immunization" is conducted during provider site visits by TMF. CDC guidelines are followed and CDC software is utilized when conducting these visits and for documentation purposes. According to CDC guidance *(The ABCs of Conducting Site Visits, section E. Site Visit Questionnaire – http://www.cdc.gov/vaccines/programs/vfc/projects/qa-site-visits.htm and the CDC's VFC Operations Guide, Module 9)* only the high priority questions [those questions preceded by a (!)] in Section I of the Site Visit Questionnaire require a written corrective action (corrective action includes follow-up). Question 31, which assesses the documentation of immunizations, is not a high priority question. Therefore, written corrective action and

	follow-up is not required. According to the CDC's VFC Operations Guide, Module 9: *"During or at the end of the VFC compliance site visit, reviewers should provide education to the provider staff when noncompliant behaviors or practices are observed or encountered, in order to correct the situations.* ***If the provider is found to be non-compliant with a high priority question (identified by a red "!"), corrective actions need to be documented at the end of Section One of the VFC Site Visit Questionnaire, along with next steps for follow-up and a timeframe."*** The audit finding is for ". . . <u>no formal documentation for follow-up was maintained</u> . . .", which is not required for this question since it is not marked as a high priority question according to CDC guidance. Due to the evidence stated above, the Immunization Program concurs with this finding in that it was following CDC guidance; however, it now recognizes that this is an audit criterion. Therefore, for future site assessment contracts, the Program will develop a handout outlining the requirements for documenting the administration of immunizations. The program will develop a feedback form to summarize provider site assessment visits. The program will require the contractor to provide and review a copy of the handout outlining the documentation of vaccine administration. The contractor will also be required to complete the feedback form, which will document the provision of and review of the requirements for documenting the administration of vaccines. The contractor will be required to submit a copy of the feedback form to the Immunization Program for each site assessment conducted. The program's policies and procedures are in place and up-to-date for this audit criteria and we are currently in a RFP process for provider site assessments. A new contract is anticipated to be in place by June 2011.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	A feedback form (indicated in the corrective action) has been discussed with the contractor, Texas Medical Foundation (TMF), as part of contract negotiations. The form and process will be finalized after July 1st when the contract begins.
Anticipated Completion Date (if not Fully corrected).	August 1, 2011

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services: Division of Public Health
Finding Number	08-DPH-03
Related Prior Year Findings	04-DPH-06, 05-DPH-06, 06-DPH-08, 07-DPH-09
Program Name (CFDA No.)	Centers for Disease Control and Prevention, Investigations, and Technical Assistance (93.283)
Condition	We noted that, in order to ensure provider claims are accurately paid, significant manual manipulation of the Screening for Life (SFL) database is required, including: ▪ Reviewing the data for duplicate claims and suppressing payment on duplicates as appropriate. ▪ Reviewing and changing as appropriate State appropriation codes and fiscal years. ▪ Reviewing suspended items for propriety and changing status as appropriate. ▪ Reviewing claims denied for propriety and changing status as appropriate. We also noted that: ▪ There is no up-to-date system documentation including support of changes that have been made to the system since inception, which may result in difficulties in updating the SFL system for programmatic changes. ▪ The system is based on Access 97, which is an application that is no longer supported by Microsoft. This may result in difficulties in updating the SFL system for programmatic changes. ▪ Test and production databases are on the same server, which may result in data being erroneously changed. ▪ The system does not include all MDE's mandated by the grantor, which may result in difficulty providing adequate screening data to the grantor agency. ▪ Physical and logical security surrounding the SFL system contain weaknesses, such as the ability of users to potentially by-pass the data entry screens and manipulate underlying data, that may result in data being changed without the knowledge of program personnel. Total breast/cervical screening claims paid with federal funds for the year ended June 30, 2008 were $508,814. This amount impacts other financially related compliance requirements, including matching, maintenance of effort, period of availability, and financial reporting. Total expenditures for CFDA number 93.283 were $10,878,883.
Recommendation	We recommend that the SFL Program continue to implement its corrective action plan, which includes a proposal to enhance the Screening for Life database to a server modular based application.
Agency Contact Name	Jill Rogers
Agency Contact Phone Number	(302) 744-1000
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐

Description of Status	The SFL Database is being moved to a SQL server within the network. The Program anticipates that test and production databases will be separate. Once the databases are moved to a more stable platform (SQL) all data will be secured. Upgrades to the system will take place during the time the system is combined with the Community Health Access Program (CHAP). Many weaknesses mentioned above will be corrected once the program is on SQL server. At this time the system does include all MDEs mandated by the grantor and the program is able to provide this information to the grantor. Update – the program is currently working with a Developer who is upgrading/changing the system. Per the project plan delivered by the vendor/developer, the system should be upgraded to the SQL server platform by April 1, 2012. The upgrades include the integration of the Community Healthcare Access Program to provide enhanced service delivery for program clients. The integration portion of the system will be web-based and will also be completed by April 1, 2012.
Anticipated Completion Date (if not Fully corrected).	Partial completion no later than June 29, 2011. Additional upgrades/changes will occur between July 2011 and June 2012. Update – Upgrade/changes are anticipated to be completed by April 1, 2012

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services: Division of Public Health
Fiscal Year	2008
Reference Number	08-DPH-02
Related Prior Year Findings	06-DPH-14, 07-DPH-04
Program Name (CFDA No.)	Centers for Disease Control and Prevention, Investigations, and Technical Assistance (93.283)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Equipment and Real Property Management
Criteria	The recipient's property management standards for equipment acquired with Federal funds and federally-owned equipment shall include all of the following: (1) Equipment records shall be maintained accurately and shall include the following information: a. A description of the equipment. b. Manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number. c. Source of the equipment, including the award number. d. Whether title vests in the recipient or the Federal Government e. Acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost. f. Information from which one can calculate the percentage of Federal participation in the cost of the equipment (not applicable to equipment furnished by the Federal Government). g. Location and condition of the equipment and the date the information was reported. h. Unit acquisition cost. i. Ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the federal awarding agency for its share. (2) Equipment owned by the Federal government shall be identified to indicate federal ownership. (3) A physical inventory of equipment shall be taken and the results reconciled with the equipment record at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the cause of the differences. The recipient shall, in connection with the inventory, verify existence, current utilization, and continued need for the equipment. (OMB Circular A-110, Subpart C – 34 (f))
Condition	Public Health Preparedness Section (PHPS) has not maintained records of federally funded equipment or tracked it according to OMB Circular A-110, Subpart C. In addition, the physical inventory of equipment taken in fiscal year 2008 has not been reconciled to the general ledger.
Cause	Although there are policies and procedures in place, those policies and procedures do not adequately address the federal requirements for equipment purchases.
Effect	Equipment purchased with federal funds related to the PHPS could not be identified for testing and therefore could be used for unauthorized projects or improperly disposed of.
Recommendation	We recommend that the CDC Program maintain accounting records and track equipment in accordance with Circular A-110. We also recommend that CDC ensure periodic physical

	inventories are taken and reconciled at least once every two years.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Joe Hughes; Changed to Iwana Smith-Moore as of October 25, 2010
Agency Contact Phone Number	(302) 223-1720
Corrective Action Plan	The equipment list SFY04 & SFY05 and SFY08 have been completed and reconciled to financial purchases. The Equipment list for SFY06 and SFY07 are not up to date, but the reconciliation is in progress. The full reconciliation will be conducted with the implementation of the Public Health Emergency Preparedness (PEPR) Inventory Management System.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected. ☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The Office of Preparedness Warehouse staff completes an annual physical inventory, with the last one being completed in 2010. All inventory records have been entered into the Preparedness Inventory Tracking System (IRMS) which is maintained, reconciled and updated by preparedness warehouse staff when new items are received or in-stock items are distributed. Preparedness has been able to incorporate some of the missing data elements required by OMB Circular A-110, Subpart C into the inventory system, a project is currently underway to ensure all data requirements are met.
Anticipated Completion Date (if not Fully corrected).	December 31, 2011

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of State Service Centers
Fiscal Year	2010
Reference Number	10-SSC-01
Related Prior Year Findings	09-SSC-03
Program Name (CFDA No.)	Low Income Home Energy Assistance Program (93.568)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Allowable Costs (Non-payroll)/Subrecipient Monitoring
Criteria	U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part: The auditee shall: (b) Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulation, and provision of contracts or grant agreements that could have a material effect on each of its programs. (c) Comply with laws, regulation, and the provisions of contracts or grant agreements related to each of its federal programs. U.S. office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Government (2 CFR Part 225) Appendix A, Section C, Basic Guideline, states in part: 1. Factors affecting allowability of costs. To be allowable under Federal awards, cost must meet the following general criteria: a. be allocable to Federal awards under the provisions of this circular… j. be adequately documented In addition, allowable costs under the grant are limited to: 1. Costs used to assist eligible households to meet the costs of home energy, i.e., heating or cooling their residences (42 USC 8621(a) and 8624(b)(1)). 2. Costs used to intervene in energy-related crisis situations, as defined by the grantee (42 USC 8623(c) and 8624(b)(1)). 3. Costs used to conduct outreach activities (42 USC 8624(b)(1)). 4. Costs used to provide low-cost residential weatherization and other cost-effective energy-related home repair (42 USC 8624(b)(1)).

	5. Costs used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance, including needs assessments, counseling, and assistance with energy vendors (42 USC 8624 (b)(16)). 6. Costs used to identify, develop, and demonstrate leveraging programs (45 CFR section 96.87(c)). 7. No costs may be for the purchase or improvement of land, or the purchase, construction, or permanent improvement (other than low-cost residential weatherization or other energy-related home repairs) of any building or other facility (42 USC 8628). 8. Leveraging incentive awards must be used to increase or maintain heating, cooling, energy crisis, and weatherization benefits for low-income persons (45 CFR section 96.87(j)). 9. Leveraging incentive award funds may not be used for planning, developing, or administering the LIHEAP program (45 CFR section 96.87(j)). 10. LIHEAP grantees may use some or all of the rules applicable to the Department of Energy's Weatherization Assistance for Low-Income Persons program (CFDA 81.042) for their LIHEAP funds spent on weatherization (42 USC 8624(c)(1)(D)).
Condition	The Division's policy is to perform a review of expenditure reimbursement requests submitted from the subrecipients to meet the requirements noted in the compliance supplement. For 39 out of the 43 expenditures selected for testwork, there was evidence of the Division's review; however, the Division did not review or maintain sufficient evidence with the invoice to ensure the expenditures were in accordance with the applicable federal regulations. The 39 expenditures totaled $6,096,426 out of the $6,499,518 sampled. The total expenditure population was $15,071,024.
Cause	The Division has not fully implemented policies and procedures pertaining to the review of program expenditures incurred by the subrecipients prior to reimbursement.
Effect	The Division did not fulfill its responsibilities related to allowable costs; therefore program expenditures could be spent on unallowable activities.
Recommendation	We recommend that the Division enhance its current policies and procedures over subrecipient reimbursements of allowable costs and subrecipient monitoring to ensure that its subrecipients remit adequate documentation to allow the Division to ensure federal allowability requirements have been met.
Questioned Costs	Questioned costs are for the 39 items noted above amount to $6,096,426.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	Prior to commencement of this audit, the Division of State Service Centers/Office of Community Services (DSSC/OCS) began a revision of its current policies and procedures to allow for monitoring of randomly selected files during the site visits to ensure that the back-up documentation is traceable to all invoices in order to verify that a payment made was based on allowable costs. These audits will occur twelve times during the year and include a review of 150 files, with

	timing focused on the peak period of benefit distribution. The subrecipients (contractor agencies) will be required to include back-up of all invoices on file. This process will allow us to quickly identify any patterns of errors and address them expeditiously with corrective action. DSSC will ensure that back-up is submitted with every invoice. The CAPTAINS (DSSC data system) generated report showing the amount of the invoice will be printed and submitted to DSSC by the contracting agencies along with their invoices. All supporting documents will be kept to match up with invoices submitted to DSSC including a copy of the canceled check from the vendor, appropriate vendor invoice, client eligibility letter and any other supporting documentation. In addition, there will be an annual Administrative Audit employing a detail questionnaire.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected. ☒ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	We have adopted the following procedures and enhanced documentation requirements for paying sub-recipients' invoices: The Division has partially corrected this finding and in doing so has defined additional and different actions than previously submitted under "Corrective Action Plan" as follows: Action Taken Differently: DSSC does not plan to conduct quality case review twelve times during the year but will enforce and monitor that the sub recipient is completing quality assurance review of client files for eligibility and benefits received. As part of the RFP, DSSC requires the sub recipient, Catholic Charities to conduct quarterly case record quality assurance review of client files. The sub recipient is required to issue a Case Record Review Summary with the results of their quality assurance review. DSSC will conduct site visits after quarterly submission of the report and conduct an independent quality assurance sample of client files. DSSC will define a schedule for reconciliation based on the FAP transaction cycle to ensure timely monitoring and auditing of sub recipient reimbursements once the extensive monitoring is completed. DSSC will not be obtaining a copy of cancelled checks from the vendor. Instead, DSSC employed an internal auditor to review the LIHEAP fuel assistance transaction cycle and a review of fiscal documents and invoices. DSSC is conducting a comprehensive fiscal and program monitoring and will do henceforth on an annual basis. At the completion of this monitoring, DSSC will issue procedures for submission and approval of vendor reimbursements. Progress to date includes the following results: 1. The sub-recipient bills DSSC in advance for funds to pay Fuel Assistance Program (FAP) benefits via an invoice on a bi-weekly basis once the grant award is received (usually late November or early December). The amount billed is the total benefit amounts for eligible clients. The invoices include the contract

	number; payment number; CAPTAINS batch number; county; number of households; and the fuel assistance total. The invoice is signed by the sub-recipient's DEAP Manager. Attached to the invoice is a list summarizing the total amounts payable to direct pay clients and the total amount payable to each home energy supplier on behalf of eligible clients. In addition, a CAPTAINS generated report of eligible clients ("Notification to Vendors"), listed by home energy supplier vendor, accompanies each invoice. The report identifies the client's name, address, application number, fuel type, vendor's client account number (if available) and total benefit amount. 2. The sub-recipients are reimbursed for providing Energy Crisis Intervention Program (ECIP) benefits to clients via invoices they submit to DSSC. The invoices are signed by the sub-recipient's program manager. Attached to the invoices for ECIP are a "Crisis Supplemental Billing Invoice" for each vendor listing the clients name, application number, vendor accounts number, maximum benefit amount, and billed amount, along with the fuel delivery ticket or statement showing the number of energy units delivered, price per unit and total amount for each client. Attached to the invoices for the Summer Cooling Assistance Program (SCAP) is a CAPTAINS generated listing of electric vendors with the corresponding clients name. 3. All sub-recipient invoices are date stamped upon receipt and reviewed by the DSSC LIHEAP Manager for approval. The Program Manager reviews the supporting documentation to determine the amount billed was accurate and for allowable costs in accordance with federal and state regulations; and contract provisions. The Program Manager approves the sub-recipient invoices and forwards them to the DSSC Fiscal Section for a second tier review of invoice documentation and accuracy. Sub-recipient invoices are paid within 30 days of receipt by DSSC.
Anticipated Completion Date (if not Fully corrected).	August 31, 2011

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of State Service Centers
Fiscal Year	2010
Reference Number	10-SSC-02
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Low Income Home Energy Assistance Program (93.568)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Subrecipient Monitoring
Criteria	U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part: In terms of subrecipient monitoring, a pass-through entity is responsible for: *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Monitoring activities normally occur throughout the year and may take various forms, such as: *Reporting* – Reviewing financial and performance reports submitted by the subrecipient. *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities.
Condition	The Division monitors the subrecipients use of Federal Awards through reporting, site visits, and regular contact. We note that while the LIHEAP Program abides by these requirements, the activities they are performing at Catholic Charities site visits are not sufficient to constitute proper monitoring since substantially all of the program is run by this subrecipient. There are no specific procedures in place to select client files for eligibility monitoring but rather a different amount of files seems to be tested for each programmatic site visit. In addition, only one fiscal monitoring visit is conducted per year and 6 invoices and the related support were reviewed. Given that the subrecipient in the past has not kept adequate support with the invoice (check copy, eligibility letter, support showing what clients were serviced, etc) or sent proper support along with the invoice for reimbursement, and that 6 invoices, representing $4,182,760, were reviewed during the site visit, we feel that the site visit is not as effective or extensive as it needs to be in order to effectively monitor the subrecipient during the year. Total costs incurred by this subrecipient for the fiscal year ended June 30, 2010 was $13,452,771.
Cause	The Division has not fully implemented policies and procedures pertaining to monitoring subrecipients especially in relation to site visits conducted at the subrecipients.

Effect	The Division did not fulfill its responsibilities related to subrecipient monitoring for their subrecipient who ran the entire program, therefore subrecipients could be administering awards in a way that does not comply with federal regulations.
Recommendation	We recommend that the Division enhance its current policies and procedures over subrecipient monitoring, specifically focusing on enhancing procedures and policies for site visits in order to ensure they are effectively monitoring the subrecipients.
Questioned Costs	Questions costs could be no more than $13,452,771 which represents the total subrecipient expenditures.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	We disagree with the auditors' assertion that the activities performed by the Division in regard to monitoring the sub-recipient Catholic Charities are not sufficient to constitute proper monitoring. Furthermore, we disagree with the auditors' representation of the Division's fiscal monitoring procedures. The Division used an on-site monitoring tool to perform the fiscal monitoring of the sub-recipient. Using the monitoring tool the Division reviewed the sub-recipient's cash receipts, accounts receivable, payroll, eligibility, accounts payable, record retention, written procedures and single audit. The monitoring included extensive testing of all supporting documentation for six invoices totaling $4,182,760 that represented 31 per cent of the total sub-recipient expenditures amounting to $13,452,771. The fiscal monitoring included numerous site visits at two locations and four follow-up meetings with sub-recipient officials. The fiscal monitoring began May 14, 2009 and was completed in August 2009. A summary report was issued to the sub-recipient on August 28, 2009 that communicated the results of the monitoring review along with recommendations for improvement. In addition to fiscal monitoring, the Division performed program monitoring site visits. In answer to the comment that we had no specific procedure for selecting client files, this is incorrect. In the past we have defined our monitoring by the number of site visits and the length of the review. We established the number of times to do site monitoring and looked at as many files that were feasible during that visit. It is true we did not define a number of files to be reviewed, but the procedure was clear and fully executed. Independent of this audit, we employed a consultant to assist us in updating all of our policies and procedures. While we stand by past practices as being valid, per above, program monitoring policies and procedures were enhanced and have already been implemented. More detailed monitoring instruments have been developed. Further, we have established as a base the review of 1% (roughly 200) randomly selected client files per fiscal year in regard to heating. There will be a review of 5% (roughly 25 files) for the summer cooling program. Further, this random selection systematically examines all categories of beneficiaries. We now examine files based on eligibility, looking at both eligible and denied households. We also review all types of program service (i.e., heating, crisis, air conditioners, and electric assistance). The Recommendation from the auditor did not include a method for selecting client files for review, but we would like to note that the above outlined process will be

	employed. These changes will be evident in the SFY'2011 program monitoring. In addition to the review of client files, there will be an annual site visit for Catholic Charities for an Administrative Review conducted by the Program Administrator. For those years when we have a cooling program, there will be one such visit for each of the two summer cooling contractor agencies providing services to our clients.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	The Division has partially corrected this finding and in doing so has defined additional and different actions than previously submitted under "Corrective Action Plan" as follows: Action Taken Differently: DSSC reviewed its program and fiscal monitoring tools and developed more extensive reviews. A comprehensive monitoring of the sub-recipient is currently underway. Progress to date includes the following results: The following describes our enhanced monitoring procedures: 1. Fiscal monitoring is underway reviewing the sub-recipient accounting system; accounting policies & procedures; budgeting; receipts; expenditures; payroll; allowable costs; records retention; non federal audit requirements; DEAP operating policies and procedures; cash management and state invoicing; and home energy supplier vendor contracts and payments. Fiscal monitoring procedures now include documenting and tracking LIHEAP funds through the sub-recipients Fuel Assistance Program transaction cycle; and performing analytical procedures to verify funds were used for providing fuel assistance to eligible clients. The on-site fiscal monitoring began June 9, 2011 covering State fiscal year 2011 and should be completed by mid July 2011. 2. Program monitoring has been enhanced through use of a monitoring tool to verify client eligibility and benefit calculation at the sub recipient's satellite offices where services are delivered. Program monitoring of the Fuel Assistance Program and the Crisis Program includes a random sampling of client files. In addition to client file review, the monitoring tool also includes an Administrative Program Review of the sub recipient. The program monitoring began in September of 2010, occurred again in February of 2011 and is occurring simultaneously with the fiscal audit and review. The monitoring is scheduled to be completed by August 2011. 3. Quarterly quality review of case files will be conducted by DSSC upon receipt of the Quality Assurance Review Report submitted by the sub recipient.
Anticipated Completion Date (if not Fully corrected).	August 31, 2011

Agency	Department of Health and Social Services Division of State Service Centers
Fiscal Year	2010
Reference Number	10-SSC-03
Related Prior Year Findings	09-SSC-03
Program Name (CFDA No.)	Weatherization Assistance for Low-Income Persons (81.042, S-81.042)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Allowable Costs (non-payroll)/Subrecipient Monitoring
Criteria	U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part: The auditee shall: (b) Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulation, and provision of contracts or grant agreements that could have a material effect on each of its programs. (c) Comply with laws, regulation, and the provisions of contracts or grant agreements related to each of its federal programs. U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Government (2 CFR Part 225) Appendix A, Section C, Basic Guideline, states in part: 1. Factors affecting allowability of costs. To be allowable under Federal awards, cost must meet the following general criteria: a. be allocable to Federal awards under the provisions of this circular… j. be adequately documented Each grantee or subgrantee receiving federal financial assistance under 10.CFR440 shall keep such records as the Department of Energy (DOE) shall require, include records which fully disclose the amount and disposition by each grantee and subgrantee of the funds received, the total cost of a weatherization project or the total expenditure to implement the State plan for which assistance was given or used, the source and amount of funds for such project or program not supplied by DOE, the average costs incurred in weatherization of individual dwelling units, the average size of the dwelling being weatherized of individual dwelling units, the average size of the swelling being weatherized, the average income of households receiving assistance under this part, and such other records as DOE deems necessary for an effective audit and performance evaluation. Such record keeping shall be in accordance with the DOE Financial Assistance rule, 10 CFR part 600, and any further requirements. **In addition, allowable costs under this grant are limited to**: a. The cost of purchase and delivery of weatherization materials (10 CFR section 440.18(d)(1)). Funds may only be expended on weatherization materials listed in Appendix

	A of 10 CFR part 440 or as approved by DOE. b. Labor costs in accordance with 10 CFR section 440.19. c. Transportation of weatherization materials, tools, and equipment, and work crews to a storage site and/or to the site of weatherization work (10 CFR section 440.18(d)(3)). d. Maintenance, operation, and insurance of vehicles used to transport weatherization materials (10 CFR section 440.18(d)(4)). e. Maintenance of tools and equipment (10 CFR Section 440.18(d)(5)). f. Purchase or annual lease of tools, equipment and/or vehicles, except that any purchase of vehicles shall be referred to DOE in every instance (10 CFR section 440.18(d)(6)). g. Employment of on-site supervisory personnel (10 CFR section 440.18(d)(7)). h. Storage of weatherization materials, tools, and equipment (10 CFR section 440.18(d)(8)). i. The costs of incidental repairs to make the installation of weatherization materials effective (10 CFR section 440.18(d)(9)). j. The costs of liability insurance for weatherization projects for personal injury and property damage (10 CFR section 440.18(d)(10)) k. The cost of carrying out low cost/no cost weatherization assistance (10 CFR section 440.20). l. The cost of WAP financial audits in accordance with 10 CFR section 440.23. m. Administrative costs (10 CFR section 440.18(d)(13)). n. The costs of eliminating health hazards, necessary to ensure the safe installation of weatherization materials (10 CFR section 440.18(d)(15)). o. Leveraging activities, as specified in leveraging section of the State Plan and grant agreement (10 CFR section 440.18(d)(14)). Leveraging entails a State obtaining additional program-targeted non-Federal or in-kind contributions as a result of WAP-funded activities. Leveraging should be limited to contributions that can be clearly attributed to a State's weatherization activities, and that are used to augment those activities. As of Program Year (PY) 2007, the maximum percentage of Weatherization funds that can be diverted for leveraging activities is 15 percent of the grantee's total allocation. p. Expenditures for labor, weatherization materials, and related matters for a renewable energy system, as defined in 10 CFR section 440.3, shall not exceed an average of $3,00 per dwelling unit or adjusted amount (42 USC 6865(c)(4); 10 CFR section 440.18(b)).
Condition	The Division's policy is to perform a review of expenditure reimbursement requests submitted from the subrecipients to meet the requirements noted in the compliance

	supplement. For 33 out of the 65 expenditures selected for testwork, there was evidence of the Division's review; however, the Division did not receive or review sufficient documentation with the invoice to ensure the expenditures were in accordance with the applicable federal regulations or in accordance with the rates agreed upon in the contract with the subrecipients. The total expended for the 33 transactions was $637,409 out of $874,877 sampled. Also, per our review, the site visit documentation was not adequate to support the Division's review of expenditures for allowable costs. Total expenditures submitted for reimbursement for the fiscal year ended June 30, 2010 was $4,869,473 for both subrecipients.
Cause	The Division has not fully implemented policies and procedures pertaining to the review of program expenditures incurred by the subrecipients prior to reimbursement.
Effect	The Division did not fulfill its responsibilities related to allowable costs, therefore program expenditures may include expenditures for unallowable activities.
Recommendation	We recommend that the Division enhance its current policies and procedures over subrecipient reimbursements of allowable costs to ensure that its subrecipients remit adequate documentation to allow the Division to ensure federal allowability requirements have been met.
Questioned Costs	Questioned costs for the 33 transactions items noted above is $637,409 as adequate documentation could not be examined.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	The finding addresses an internal control deficiency that was presented in a finding in the 2009 Single Audit Report (Reference Number: 09-SSC-03). The 2009 finding found that the Division did not receive or review sufficient documentation with the invoice to ensure expenditures were in accordance with applicable federal regulations. The auditor recommended the Division ensure its sub-recipients remit adequate documentation to ensure federal allowability requirements have been met. The Division responded to the 2009 finding as follows: "Effective January 1, 2010 we implemented procedures requiring sub-recipients to submit supporting documentation with their reimbursements requests to ensure that federal allowability requirement is met." It should be noted the Division identified the documentation problem and implemented the enhanced documentation procedures prior to the 2009 audit finding. For the 2010 audit finding, the auditor provided us with their work paper identifying the 33 payment vouchers they reviewed where the associated invoices submitted by the sub-grantee were not accompanied by sub-contractor invoices. Sub-contractor invoices included a description of work performed and materials used to weatherize homes; for instance, caulking, insulation, furnace repair, etc. Sub-contractors invoices were necessary so the WAP program supervisor could determine if the expenditure was allowable before approving for payment. The Division found that all but one of the 33 exceptions identified by the auditor for the 2010 finding were for invoices that were dated prior to January 1, 2010 – the date the Division implemented the enhanced documentation requirements. We disagree with the auditor's conclusion that the one invoice dated 1/27/10 (after the date the Division implemented the enhanced documentation requirements) had insufficient documentation. The invoice did have the sub-contractor's invoice attached that documented the work performed. Therefore, the auditor's testing confirmed the 2009 audit recommendation was complied with and the corrective action plan was properly implemented. No further action is

	necessary.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As described in the corrective action plan the auditor's finding addresses an internal control deficiency that was presented in a finding in the 2009 Single Audit Report (Reference Number: 09-SSC-03). The internal control deficiency was corrected 1/1/10. The auditors repeated the finding for FY 2010 because the deficiency still existed for the first six months of FY2010. However, as described in the corrective action plan, the auditor's testing confirmed the deficiency was corrected effective 1/1/10. The finding has been fully corrected. The Weatherization program was given approval from Governor Markell to transition from The Department of Health and Social Services in October 2010. The Department of Natural Resources and Environmental Control (DNREC) was awarded the grant in late January 2011; but did not take control of the expenditures and reporting until April 1st 2011. Please see attached grant award. By this time as well subgrantee and contracts had been signed and DNREC began to weatherize units in June 2011. Below is our response as of December to the Department of Energy. DNREC has developed all new policies and procedures for invoicing the state. A copy of the new WAP manual is found at: http://www.dnrec.delaware.gov/energy/services/otherservices/Pages/WAP-Docs_F.aspx
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of State Service Centers
Fiscal Year	2010
Reference Number	10-SSC-04
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Weatherization Assistance for Low-Income Persons (81.042, S-81.042)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Allowable Costs (non-payroll)
Criteria	U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part: The auditee shall: (b) Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulation, and provision of contracts or grant agreements that could have a material effect on each of its programs. (c) Comply with laws, regulation, and the provisions of contracts or grant agreements related to each of its federal programs. U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Government (2 CFR Part 225) Appendix A, Section C, Basic Guideline, states in part: 1. Factors affecting allowability of costs. To be allowable under Federal awards, cost must meet the following general criteria: b. be allocable to Federal awards under the provisions of this circular. c. be authorized or not prohibited under State or local laws of regulations. In addition, allowable costs under this grant are limited to (in part): a. The cost of purchase and delivery of weatherization materials (10 CFR section 440.18(d)(1)). Funds may only be expended on weatherization materials listed in Appendix A of 10 CFR part 440 or as approved by US Department of Energy (DOE). Per the DOE, the use of funds for the purchase or installation of air conditioners is not allowed for the State of Delaware based on its climate.
Condition	The Division's policy is to perform a review of expenditure reimbursement requests submitted from the subrecipients to meet the requirements noted in the compliance supplement. For 2 out of the 65 expenditures selected for testwork, there was evidence of the Division's review; however, upon review of the supporting documentation, part of the costs for these PV's were used to purchase air conditioning units, which due to Delaware's climate, are not allowed. Total expenditures spent on unallowable activities that we selected

	for testing were $11,720. The total expenditures selected for testwork was $874,877 out of the total population of $4,869,473.
Cause	The Division has not fully implemented policies and procedures pertaining to reviewing allowable costs for the Program as well as guidance on allowable costs for program expenditures.
Effect	The Division did not fulfill its responsibilities related to allowable costs therefore program expenditures could be spent on unallowable activities.
Recommendation	We recommend that the Division enhance its current policies and procedures over reviewing subrecipient reimbursements of allowable costs and update the guidance used for determining allowable costs so that subrecipients expend money on allowable costs to ensure federal allowability requirements are being met.
Questioned Costs	Questioned costs are $11,720.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	All of the costs of the Weatherization Program are being reviewed, on a home by home basis, as part of the corrective action effort with DOE. In this regard, the Division will comply with DOE's final determination regarding any questioned costs. The responsibilities for the Weatherization Assistance for Low-Income Persons Program have been transferred to the Department of Natural Resources and Environmental Control.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	The Division exercised due diligence with regards to review of sub recipient reimbursements and allowable costs as follows: 1. An excel spreadsheet was prepared of the 1,866 dwelling units that were funded with WAP funds (1287 ARRA funded and 579 Base grant funded) and 308 units that were not funded by DOE. 2. The spreadsheets delineated payments by the sub recipients First State Community Action Agency and Neighborhood House, Inc. and covered the period of 4/1/09 through 4/30/11. Funding was designated as either ARRA or Base. 3. The "All Funds Program Operations Expenditures Un-Commingled and Reassigned" spreadsheet described in 1 & 2 above was transmitted to DNREC. Presently DNREC (at DOE's direction) is proceeding with their own review and inspection of each unit to (1) identify missed opportunities where work could have been performed to make homes more energy efficient as well as (2) inspect work previously done. Upon completion, with DOE's approval, the Weatherization program will recommence operations under DNREC. The Weatherization program was given approval from Governor Markell to transition from The Department of Health and Social Services in October 2010. The Department of Natural Resources and Environmental Control (DNREC) was awarded the grant in late January 2011; but did not take control of the expenditures

	and reporting until April 1st 2011. By this time as well subgrantee and contracts had been signed and DNREC began to weatherize units in June 2011. Below is our response as of December to the Department of Energy. DNREC has developed all new policies and procedures for invoicing the state. A copy of the new WAP manual is found at: http://www.dnrec.delaware.gov/energy/services/otherservices/Pages/WAP-Docs_F.aspx DNREC specifically does not view air conditioners as an allowable expense.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of State Service Centers
Fiscal Year	2010
Reference Number	10-SSC-05
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Weatherization Assistance for Low-Income Persons (81.042, S-81.042)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Earmarking
Criteria	The Weatherization Program must meet the following requirements as they relate to earmarking: a. Not more than 10 percent of funds may be used in total or in part for administrative costs. A State shall not expend more than 5 percent for such administrative costs, with at least 5 percent going to subrecipients for administration. Subrecipients may spend no more than 10 percent of the grant for administration; however, for subrecipients receiving grants of less than $350,000, a State may permit that entity to expend up to an additional 5 percent of its subgrant for administrative purposes (10 CFR section 440.18(e)). b. Not more than 20 percent of the funds may be used to provide, directly or indirectly, training and/or technical assistance to any grantee or subgrantee (42 USC 6866, as amended by Section 407(d), ARRA, 123 Stat 146; 10 CFR section 440.23(e)).
Condition	The Program's policy is to have a staff update earmarking spreadsheets on a monthly basis for all current grants and then send the spreadsheets to management for review. The earmarking spreadsheets detail the amount and type of expenditures cumulatively for each grant. Management uses this to ensure earmarking requirements are being met. Upon review, three out of the eight earmarking spreadsheets chosen for testing, revealed that more expenditures had been used on administrative costs both by the State and subrecipients than what is allowed per the grant agreement. The spreadsheets were for the period 9/30/09 for Grant #08013101 and 3/31/10 and 6/30/10 for Grant 09012908.
Cause	The Program has not fully implemented policies and procedures surrounding the budgeting and monitoring of expenditures to ensure compliance with federal earmarking requirements.
Effect	The Program's administrative costs, on both on a State and subrecipient level, exceeded what is allowed per federal guidance.
Recommendation	We recommend that the Division enhance its current policies and procedures over earmarking to ensure that earmarking requirements are being met both on a State and subrecipient level.
Questioned Costs	Questioned costs are $134,119 which represents the administrative costs in excess of 10% expended by the State and subrecipients.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	All of the costs of the Weatherization Program are being reviewed on a home by home basis, as part of the corrective action effort with DOE. In this regard, the Division will comply

	with DOE's final determination regarding any questioned costs. The responsibilities for the Weatherization Assistance for Low-Income Persons Program have been transferred to the Department of Natural Resources and Environmental Control.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	DSSC agrees with the condition cited under administrative costs beyond the 10% cap but questions the amount of overage. Salary and benefit costs for the WAP Program Administrator were charged to administration in instances where charges should have been made for training and technical assistance. DSSC will work with DOE regarding resolution of the questioned costs. DSSC rescinds the prior corrective action plan statement as it was not applicable to the condition contained in the finding. The Weatherization program was given approval from Governor Markell to transition from The Department of Health and Social Services in October 2010. The Department of Natural Resources and Environmental Control (DNREC) was awarded the grant in late January 2011; but did not take control of the expenditures and reporting until April 1st 2011. By this time as well subgrantee and contracts had been signed and DNREC began to weatherize units in June 2011. Below is our response as of December to the Department of Energy. DNREC has developed all new policies and procedures for our new WAP program. A copy of the new WAP manual is found at: http://www.dnrec.delaware.gov/energy/services/otherservices/Pages/WAP-Docs_F.aspx Delaware is still in the process of re-constructing DHSS expenditures and reconciling them with our ARRA grant. Under no circumstance will we exceed earmarking constraints and any funds in excess of legal limits will be derived from other sources.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of State Service Centers
Fiscal Year	2010
Reference Number	10-SSC-06
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Weatherization Assistance for Low-Income Persons (S-81.042)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Subrecipient Monitoring – ARRA
Criteria	Federal agencies must require recipients to agree to: (1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification (as noted in R2 above) in their SEFA and SF-SAC. Additional information, including presentation requirements for the SEFA and SF-SAC, is provided in Appendix VII (2 CFR section 176.210).
Condition	The Subrecipient contracts selected for testing did not contain all the information required to meet the subrecipient monitoring of ARRA awards requirement. While the contract was signed and had appropriately identified the Federal Award number, the CFDA #, and total ARRA funds, it did not contain any language directing the subrecipients to provide separate identification of ARRA awards in its Schedule of Expenditures and Federal Awards (SEFA) and Data Collection Form (SF-SAC) as is required.
Cause	The Program has not fully implemented policies and procedures pertaining to reviewing and monitoring contracts with subrecipients especially in relation to new ARRA requirements.
Effect	Subrecipients may not be correctly separating or identifying ARRA vs. Non-ARRA expenditures on their SEFA and Data Collection Form as is required.
Recommendation	We recommend that the Program enhance its current policies and procedures over reviewing and monitoring contracts, specifically focusing on enhancing procedures and policies for updating contracts for new ARRA requirements.
Questioned Costs	Questioned costs related to this finding could be no more than $2,317,743 which represents the total expenditures for the subrecipient.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	We will amend the subrecipients' current contracts to include language directing the subrecipients to provide separate identification of ARRA awards in their Schedule of Expenditures and Federal Awards (SEFA) and Data Collection Form (SF-SAC).
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	DSSC did not amend the contracts with the sub recipients as DNREC entered into its own contracts with the sub recipients and DHSS ended its contracts.

	In transferring the program, DSSC furnished DNREC with a WAP excel spreadsheet for each unit that received weatherization services and delineated the funding source as either ARRA or Base WAP. The Weatherization program has been successfully transferred to DNREC. As part of its due diligence, DSSC prepared the following set of information regarding sub recipient reimbursements and allowable costs. 1. An excel spreadsheet was prepared of the 1,866 dwelling units that were funded with WAP funds (1287 ARRA funded and 579 Base grant funded) and 308 units that were not funded by DOE. 2. The spreadsheets delineated payments by the sub recipients First State Community Action Agency and Neighborhood House, Inc. and covered the period of 4/1/09 through 4/30/11. Funding was designated as either ARRA or Base. 3. The "All Funds Program Operations Expenditures Un-Commingled and Reassigned" spreadsheet described in 1 & 2 above was transmitted to DNREC. Presently DNREC (at DOE's direction) is proceeding with their own review and inspection of each unit to (1) identify missed opportunities where work could have been performed to make homes more energy efficient as well as (2) inspect work previously done. Upon completion, with DOE's approval, the Weatherization program will recommence operations under DNREC. The Weatherization program was given approval from Governor Markell to transition from The Department of Health and Social Services in October 2010. The Department of Natural Resources and Environmental Control (DNREC) was awarded the grant in late January 2011; but did not take control of the expenditures and reporting until April 1st 2011. By this time as well subgrantee and contracts had been signed and DNREC began to weatherize units in June 2011. Below is our response as of December to the Department of Energy. DNREC's new contracts with both subgrantees contain the required language. (see page D-12 of either contract; which is attached).
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of State Service Centers
Fiscal Year	2010
Reference Number	10-SSC-07
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Weatherization Assistance for Low-Income Persons (81.042, S-81.042)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Subrecipient Monitoring
Criteria	U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part: In terms, of subrecipient monitoring, a pass-through entity is responsible for: *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Monitoring activities normally occur throughout the year and may take various forms, such as: *Reporting* – Reviewing financial and performance reports submitted by the subrecipient. *Site Visits* – Performing site visits at the subrecipient to review financial and programmatic records and observe operations *Regular Contact* – Regular contacts with subrecipients and appropriate inquiries concerning program activities. A pass-through entity must also review whether subrecipients receiving ARRA funding have current CCR registrations prior to making sub-awards and perform periodic checks to ensure that subrecipients are updating information, as necessary.
Condition	The Program must review award documents to ensure the subrecipient registered with Central Contracting Registration (CCR) before subawards given. The Division could not provide support that the CCR had been checked and reviewed before award was given. The Program also monitors the subrecipients' use of Federal Awards through reporting, site visits, and regular contact. While site visits were conducted on the subrecipient selected for testwork, the activities performed at the site visits do not constitute adequate monitoring. There are no specific procedures documented to identify client files tested for eligibility and only one monitoring visit is conducted per year. Six invoices were reviewed during the fiscal site visit and 6% of the completed jobs were reviewed at the programmatic site visit. The site visit is not as effective or extensive as it needs to be in order to monitor the subrecipient during the year. We note that an enhanced monitoring tool was developed by the Division in April 2010, but has not been implemented.

	Additionally, we reviewed a Department of Energy (DOE) monitoring report of the program, dated June 2010, that identified significant issues at the sub-contractors of the program not identified by the Division's monitoring.
Cause	The Division has not fully implemented policies and procedures pertaining to monitoring subrecipients especially in relation to before and during award monitoring.
Effect	The Division did not fulfill its responsibilities related to the monitoring of subrecipients, therefore subrecipients could be administering awards in a manner that does not comply with federal regulations.
Recommendation	We recommend that the Division enhance its current policies and procedures over subrecipient monitoring, specifically focusing on enhancing procedures and policies surrounding before and during award monitoring in order to ensure that subrecipients are effectively monitored.
Questioned Costs	Questioned costs associated with this finding could be no more than $4,869,473 which represents total subrecipient contract expenditures for both subrecipients.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	In regard to the auditor's assertion that the Division did not properly verify sub-recipient's CCR registration, we offer the following: As part of the federal OMB and State procedures required to prepare the ARRA 1512 reports, the Division obtained subrecipients Central Contracting Registration (CCR) data. During September 2009, prior to processing any grant expenditures, the sub-recipient supplied the division with their Central Contracting Registration (CCR) number which was verified in CCR system as being the number assigned to the subrecipient. The CCR confirmed that the sub-recipient has a current registration and verified that the subrecipient registration had existed in the system previously. The sub-recipient's correct CCR number was presented on the 1512 report as required. In regard to the auditor's assertion that sub-recipient monitoring was not adequate during their audit period, we offer the following: We disagree with auditor's assertion that activities performed at site visits did not constitute adequate monitoring. Furthermore, we disagree with the auditor's representation of the monitoring procedures performed during the audit period. All clients that received weatherization services were monitored for eligibility during the audit period. The Division verified client's names and addresses with the CAPTAINS, an eligibility system used by Catholic Charities to confirm that all LIHEAP client eligibility requirements were met including confirmation that clients' income did not exceed 200% of poverty. For clients not found in the CAPTAINS, we verified their income met eligibility criteria through the CAPS system. The CAPS is an eligibility verification system used by DSSC for State and Federally funded assistance programs. We reviewed applications and income documentation in client files maintained by the two sub-grantees for those clients that were not found in CAPTAINS or CAPS.

	The Division prepared a comprehensive financial monitoring instrument to be used for monitoring the two subrecipients. The monitoring instrument covered (1) accounting system, (2) accounting policies and procedures, (3) budgeting, (4) program income, (5) receipts, (6) expenditures, (7) payroll, (8) allowable costs, (9) procurement, (10) reporting, (11) records retention, (12) non federal audit requirements, (13) property and equipment, (14) program contract administration, (15) vendor contracts, (16) cash management and state invoicing, and (17) Davis-Bacon compliance. The monitoring instrument was provided to DOE for their review. Before the Division had an opportunity to use the monitoring instrument, the DOE took the lead in conducting a comprehensive monitoring of both subrecipients. Division staff accompanied DOE staff in performing the sub-recipient monitoring. The results of this extensive review were included in their Management Performance Report dated June 23, 2010 referred to in the audit finding. DOE is acutely aware of problems they identified in their report with both the grantee and sub-grantee in administering the WAP. DOE has communicated the corrective actions that both DHSS and DNREC must perform to resolve the deficiencies they identified. We determined that it would not be productive for us to conduct our own sub-recipient monitoring in addition to DOE's sub-recipient monitoring for the same period. We determined it would be more productive for the Division to work on implementing corrective actions of the deficiencies communicated to us in DOE's report. In regard to the recommendation in this finding, the responsibilities for the Weatherization Assistance for Low-Income Persons Program have been transferred to the Department of Natural Resources and Environmental Control.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	The below corrective actions were taken as stated: 1. The CRC numbers were obtained 2. A comprehensive fiscal and revised program monitoring tools were developed and worked cooperatively with DOE staff who conducted a federal monitoring review. 3. DHSS has been working cooperatively with DNREC regarding resolution of findings from the DOE June 2010 report. As stated in the corrective action the Weatherization program has been transferred to DNREC. As part of its due diligence, DSSC prepared the following set of information regarding sub recipient reimbursements and allowable costs. 4. An excel spreadsheet was prepared of the 1,866 dwelling units that were funded with WAP funds (1287 ARRA funded and 579 Base grant funded) and 308 units that were not funded by DOE. 5. The spreadsheets delineated payments by the sub recipients First State Community Action Agency and Neighborhood House, Inc. and covered the period of 4/1/09 through 4/30/11. Funding was designated as either ARRA or Base. 6. The "All Funds Program Operations Expenditures Un-Commingled and Reassigned" spreadsheet described in 1 & 2 above was transmitted to DNREC.

	In addition, DNREC is completing a monitoring of each unit of the work performed and client files unit to (1) identify missed opportunities where work could have been performed to make homes more energy efficient as well as (2) inspect work previously done. DHSS worked with the sub recipients and the Attorney General's Office regarding confidentiality of files and sharing files with DNREC. An MOU between DNREC and DHSS has been developed. Upon completion of DREC's monitoring, and with DOE's approval, the Weatherization program will recommence operations under DNREC. The Weatherization program was given approval from Governor Markell to transition from The Department of Health and Social Services in October 2010. The Department of Natural Resources and Environmental Control (DNREC) was awarded the grant in late January 2011; but did not take control of the expenditures and reporting until April 1st 2011. By this time as well subgrantee and contracts had been signed and DNREC began to weatherize units in June 2011. Below is our response as of December to the Department of Energy. DNREC has developed all new policies and procedures for WAP. A copy of the new WAP manual is found at: http://www.dnrec.delaware.gov/energy/services/otherservices/Pages/WAP-Docs_F.aspx Subgrantee monitoring is continuous, comprised of weekly written reports, constant field supervision, b-weekly face to face meetings with subgrantee management and detailed review of all invoices -including all supporting documentation for every unit.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Health and Social Services Division of State Service Centers
Fiscal Year	2010
Reference Number	10-SSC-08
Related Prior Year Findings	09-SSC-01
Program Name (CFDA No.)	Weatherization Assistance for Low-Income Persons (81.042, S-81.042)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Procurement
Criteria	Per 10 CFR 600 subpart C, States and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contracts includes any clauses required by Federal statutes and executive orders and their implementing regulations.
Condition	For the one subrecipient contract selected for testing, the contract did not include all required language, including references to 10 CFR 600/400 and Department of Energy (DOE) grant guidance/program requirements, references to usage of the Delaware Technical standards identified in the Delaware Field Guide, and references to procurement rules/requirements to procure services.
Cause	The Division did not follow the State procurement policies and procedures.
Effect	The Division may have awarded a federally funded contract to a subrecipient who may not be following the necessary federal regulations since the terms are missing from their contract.
Recommendation	We recommend that the Program update existing contracts to contain all terms, conditions, provisions, and other clauses required by state and federal guidelines and also establish a procedure to ensure all such required language is included in future contracts.
Questioned Costs	The questioned costs associated with this finding are undeterminable but could not exceed $2,317,743, which represents total amounts paid to the subrecipient during the year.
Agency Contact Name	Harry Roberts, DHSS Controller
Agency Contact Phone Number	(302) 255-9235
Corrective Action Plan	All of the costs of the Weatherization Program are being reviewed as part of the Corrective Action effort with DOE. In this regard, the Division will comply with DOE's final determination regarding any questioned costs. The responsibilities for the Weatherization Assistance for Low-Income Persons Program have been transferred to the Department of Natural Resources and Environmental Control.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	As previously stated, the responsibilities for the Weatherization Assistance for Low-Income Persons Program have been transferred to the Department of Natural Resources and Environmental Control. Given that, DSSC did not update/amend the contracts with the sub recipients as DNREC entered into its own contracts with the sub recipients and DHSS ended its contracts.

	The Weatherization program was given approval from Governor Markell to transition from The Department of Health and Social Services in October 2010. The Department of Natural Resources and Environmental Control (DNREC) was awarded the grant in late January 2011; but did not take control of the expenditures and reporting until April 1st 2011. By this time as well subgrantee and contracts had been signed and DNREC began to weatherize units in June 2011. Below is our response as of December to the Department of Energy. DNREC has developed all new policies and procedures for WAP and new contracts with subgrantees that specifically require adherence to 10 CFR 440 and 600. In addition, procurement requirements that meet state standards are detailed in depth in the new WAP manual.
Anticipated Completion Date (if not Fully corrected).	

Agency	Department of Labor
Fiscal Year	2010
Reference Number	10-DOL-01
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Vocational Rehabilitation Cluster (84.126, S-84.390)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Allowable Costs
Criteria	Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5) Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort. Substitute systems, which use sampling methods, must meet acceptable statistical sampling standards, including: • The sampling universe must include all of the employees whose salaries and wages are

	to be allocated based on sample results. • The entire time period being sampled. • The results must be statistically valid and applied to the period being sampled. (OMB circular A-87, Attachment B.8.h.6)
Condition	For one out of the 40 employees selected for testing, one of the 'time & effort (T&E)' reports was incorrectly completed - resulting in an understatement of time charged to appropriation 'DVR-Basic Support'.
Cause	A lack of oversight on the part of management in maintaining payroll files.
Effect	Payroll related costs were understated under appropriation 'DVR-Basic Support'.
Recommendation	DOL should utilize its resources to ensure the effectiveness of policies and procedures in place to maintain that all time & effort reports are properly reviewed prior to submission.
Questioned Costs	The incorrect T&E report was understated by $517.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	DVR will utilize its resources to ensure that all time & effort reports are properly reviewed prior to submission. Adding an additional approval by a member of the fiscal staff with access to the PHRST system can be implemented to ensure the accuracy of timesheets.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DVR will add an additional approval by a member of the fiscal staff with access to PHRST to ensure the accuracy of the timesheets. Implemented March 2011
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Labor
Fiscal Year	2010
Reference Number	10-DOL-02
Related Prior Year Findings	09-DOL-01
Program Name (CFDA No.)	Vocational Rehabilitation Cluster (84.126, S-84.390)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Eligibility
Criteria	According to 29 USC 722 (a)(6), the designated State unit shall determine whether an individual is eligible for vocational rehabilitation services under this subchapter within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless (a) exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time or; (b) the designated State unit is exploring an individual's abilities, capabilities, and capacity to perform in work situations under paragraph (2)(B)
Condition	For 3 out of the 40 clients selected for testing, the client's eligibility for services was not determined within the required 60-day timeframe.
Cause	A lack of oversight on the part of management in maintaining client files.
Effect	The Department of Labor (DOL) did not make determinations of client eligibility within the timeframe required by federal regulations.
Recommendation	We recommend that the DOL utilize its resources to monitor the status of eligibility determinations with an aging report or tickler system to ensure they are made within the required 60-day time frame, unless exceptions granted by federal regulations occur and are properly documented in the client file.
Questioned Costs	There were no questioned costs associated with this finding as the 3 clients were ultimately deemed to be eligible.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	DVR will exercise due diligence in adhering to current policies and procedures for ensuring that eligibility determinations are made within the 60 day timeframe, including training on policies and procedures, quality assurance reviews and greater supervisory monitoring.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DVR will continue to exercise due diligence in adhering to current policies and procedures including increased training on policies and procedures, quality assurance reviews and supervisory monitoring.

Anticipated Completion Date (if not Fully corrected).	Ongoing.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Labor
Fiscal Year	2010
Reference Number	10-DOL-03
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Work Investment Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Allowable Costs
Criteria	Federal funds are received by the State for the Work Investment Act, federal CFDA numbers 17.258, 17.259, and 17.260. To be allowed under Federal awards, costs must meet the following general criteria in part (A-87, Attachment A, paragraph C.1): • Be necessary and reasonable for proper and efficient performance and administration of Federal awards. A cost generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal Award. • Be allocable to Federal awards under the provision of A-87. • Be consistent with policies, regulations, and procedures that apply uniformly to both Federal wares and other activities of the governmental unit. • Be adequately documented.
Condition	For 1 transaction amounting to $57, out of 40 transactions tested totaling $23,083 (net), the Agency was unable to provide supporting documentation to support the expenditure. As such, there is no evidence of management review and approval for this expenditure correction transaction for fleet services (state vehicles). The total population for this sample of intergovernmental vouchers and expenditure corrections totaled $1,779,070.
Cause	The Division did not ensure that all transactions were properly reviewed for allowability and documented and/or did not maintain documentation to support the transaction.
Effect	The lack of adequate internal controls resulted in a potential misappropriation of Federal Funds, unsupported purchases, and noncompliant with policies and procedures. Review of transactions prior to processing (as evidenced by signature on the transaction document) is the primary control regarding the allowability of costs charged to federal awards.
Recommendation	The Department of Labor should adhere to established policies and procedures to ensure that transactions are appropriately approved in accordance with State and Federal policy and that appropriate supporting documentation is maintained with all processed transactions.
Questioned Costs	The known questioned costs associated with this finding are $57 as there is no supporting documentation to support the expenditure correction transaction.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	All documents are signed and reviewed prior to being approved on the financial management system. DOL can re-create the support that we used to pay this document; however, the original document has been misplaced. The Department agrees to review the internal control policies with staff to ensure document retention is properly adhered to.
Finding Status	Fully Corrected.☒

	Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DET has provided additional training and review with staff to ensure that the current policy and procedures to ensure compliance with State retention schedules has been adhered to.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Labor
Fiscal Year	2010
Reference Number	10-DOL-04
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Work Investment Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Procurement, Suspension and Debarment
Criteria	Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions included procurement contracts for goods or services under nonprocurement transactions (e.g., grant or cooperative agreement that are expected to equal or exceed $25,000 or meet certain criteria. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity or adding a clause or condition to the covered transaction with that entity.
Condition	The State of Delaware requires Certified Training Providers (CTP) engaged with the WIA program to adhere to controls set up for the WIA Program. First, a 'Memo of Understanding' detailing the transactions being put into place must be signed by the CTP and WIB director. Further, the CTPs must submit a proof of debarment consistent with Compliance regulation for 'Suspension and Debarment.' For one out of two vendors selected for testwork, the Program did not follow the proper controls established for internal control as the respective CTP file did not contain the 'Memo of Understanding' or the proof of debarment status.
Cause	The Division did not follow the State suspension and debarment policies and procedures as well as internal control policies and procedures set up within the WIA Program or did not maintain documentation to support that the policies and procedures were followed.
Effect	The Programs may award federally funded contracts to disallowed vendors or services to be performed by the CTP could be ambiguous.
Recommendation	We recommend that all procurement, suspension and debarment documentation, including 'Memos of Understanding' and proof of Suspension & Debarment status, be retained for the duration of the contract life.
Questioned Costs	There are no questioned costs associated with this finding as CTP was not suspended or debarred.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	We are in agreement with the finding that one out of two vendor files did not contain the MOU and Debarment forms. The Workforce Investment Board has worked to comply with

	federal as well as our state standards, since taking responsibility for the maintenance of all ITA providers. We were informed in 2008 of the need for the paper copy of the debarment form and immediately the condition was written into WIA process. We ask that you please accept this finding as an administrative oversight. The debarment form was given to each provider to be signed and returned and was written into the renewal processes for PY2009. Prior to being notified in 2008 that it was necessary to address debarment, debarment was addressed in Delaware Joblink as an online form which required a response in order to continue through the process to become a provider.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DET revised procedures for retention of all procurement, signed MOU, suspension and debarment documentation and department status verification in PY2009. Additional training on the procedures were provided to staff.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Labor
Fiscal Year	2010
Reference Number	10-DOL-05
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Work Investment Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Reporting
Criteria	The Delaware Workforce Investment Act Program is required to file various reports related to its oversight and compliance over the federal funds it receives from the DOL. ETA-9130, *Financial Report (OMB No. 1205-0461)* - All ETA grantees are required to submit quarterly financial reports for each grant award they receive. Reports are required to be prepared using the specific format and instructions for the applicable program(s); in this case, *Workforce Investment Act* instructions for the following: *Statewide Adult; Workforce Statewide Youth; Statewide Dislocated Worker; Local Adult; Local Youth; and Local Dislocated Worker.* A separate ETA 9130 is submitted for each of these categories. Reports are due 45 days after the end of the reporting quarter. ETA-9091,*WIA Annual Report* (*OMB Number 1205-0420*) - Sanctions related to State performance or failure to submit these reports timely can result in a total grant reduction of not more than five percent as provided in WIA Section 136 (g)(1)(B). ETA-9149, OMB Control Number 1205-0474 – A new supplemental reporting form separate from current data collection instruments is required. Report tracks youth served with Recovery Act Funds.
Condition	Based on the review of the financial reports required to be submitted we noted the following issues: • Two out of ten 9130 Reports were authorized but not properly reviewed. The two reports also did not break out all required elements on the report as required. • Further, while another 9130 Report was properly authorized and reviewed by management, the report did not agree to supporting documentation including DFMS Support. The total variance was $322.
Cause	Two of the ten 9130 Reports did not break out all required elements of the report and were also prepared and reviewed by the same individual. For a third 9130 Report, while it showed separate preparer and reviewer signatures, the data on the Report did not agree to supporting documentation as the reviewer did not agree report elements prior to sign-off.
Effect	Controls are not adequate to ensure separate preparer and reviewers of Reports and to ensure that amounts recorded in financial reports were properly broken out, materially correct and properly supported.
Recommendation	The program should consider adding an additional level of review to ensure reports are accurately prepared and reviewed by separate individuals and are properly presented and agree to supporting documentation.
Questioned Costs	No questioned costs associated with this finding, as the $322 represents under reported

	costs.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	The Department agrees to add an additional level of review to ensure reports are accurately prepared.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DET has revised procedures to include an additional level of review.
Anticipated Completion Date (if not Fully corrected).	Ongoing

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Labor
Fiscal Year	2010
Reference Number	10-DOL-06
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Work Investment Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Subrecipient Monitoring
Criteria	*Award Identification* – At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements. *During-the-Award Monitoring* – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions. *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations. *Central Contractor Registration* – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).
Condition	For 2 out of the 5 subrecipients selected for testing, no monitoring was performed by the WIA Program during the FY10. For the three remaining subrecipients, two of the checklists that are utilized to monitor financial status of subrecipients had not been reviewed by management. The subrecipients not monitored during the fiscal year had expenditures of $746,240.
Cause	The Program did not ensure that monitoring checklists were properly completed and reviewed by management. In addition, the Program did not have adequate controls in place to ensure it monitors subrecipients in accordance with the criteria noted above or maintain

	proper documentation to support they effectively monitored subrecipients.
Effect	The Program is not fulfilling its subrecipient monitoring responsibilities and subrecipients could not be meeting federal requirements.
Recommendation	The Department of Labor should adhere to established policies and procedures to ensure that monitoring checklists are appropriately being reviewed and should enhance procedures to ensure all subrecipients are being monitored as required.
Questioned Costs	Questioned costs for subrecipients not monitored are unknown but could be no more than $746,240.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	The Division of Employment and Training agrees to adhere to established policies and procedures to ensure that monitoring checklists are appropriately being reviewed. The State of Delaware operates as both the state and the local program and, as such, we ensure the local area's compliance with DOL uniform administrative requirements. We also provide within each contract, the administrative and fiscal requirements as stated by the Workforce Investment Act. Each contractor submits monthly financial reports that are reviewed and compared to the approved budget within their contract. All records are to be maintained for at least 3 years for monitoring purposes. The Division of Employment and Training does monitor sub-contractors based on the policy implemented within our division with the introduction of the Workforce Investment Act. This policy states that 25% of all WIA contracts must be monitored each program year. All new subcontractors must be reviewed and offered technical assistance in addition to the 25%. As a result, we do not plan to modify our policy. Although each contractor is not monitored annually, they are rotated and all are monitored within a three year cycle. We have been monitored by both state and federal agencies throughout the last 10 years of this program and this policy has never been questioned or written up prior to this fiscal year. While fiscal monitoring was not completed on all five subrecipients, program monitoring was conducted on 4 out of the 5 subrecipients. Program monitoring includes documentation reviews that ensure participant eligibility, and on-site visits to make sure subrecipients are in compliance with DOL/DET policy and procedures. In addition to program monitoring, technical assistance is provided to subrecipients throughout the contract period. The one exception to program monitoring was Advance Staffing. Since the Intensive Workshops were a new service being provided, DOL/DET decided subrecipients would be better serviced by providing constant technical assistance throughout the contract period. Technical assistance included a group orientation for all subrecipients providing the Intensive Workshops, a training session on how to determine eligibility, and on-site visits to make sure curriculums being used were appropriate.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐

Description of Status	DET has revised their policy for monitoring sub-contractors. They will monitor 33% of WIA sub-contractors each fiscal year. The ETA has accepted this new policy and agrees that it would not be cost beneficial to monitor every sub-contractor yearly. Policy was approved by ETA in December 2011.
Anticipated Completion Date (if not Fully corrected).	June 30, 2012

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Labor
Fiscal Year	2010
Reference Number	10-DOL-07
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Work Investment Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Cash Management
Criteria	U. S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 *et seq.*), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures by prescribed in Treasury in Subpart B of 31 CFR part 205 (Subpart B). KPMG notes WIA is required to be in compliance with Subpart B cash drawdown procedures. The timing of the cash drawdown should be within the proper period and should trace to supporting documentation. All CR's must be signed by an authorized signor and reviewer.
Condition	For five of the cash receipt drawdowns tested totaling $7,468,781, two transactions did not agree to supporting documentation by a total of $10,879.
Cause	There was a lack of reconciliation to document why CRs did not agree to supporting documentation.
Effect	There is a lack of a formal reconciliation within the Program and the Program may be inappropriately reimbursed expenditures.
Recommendation	The WIA Program should implement a formal reconciliation to ensure the reviewer's approval that CRs agree to supporting documentation.
Questioned Costs	There are no questioned costs related to this finding as the two cash drawdowns did not exceed supporting documentation.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	The DET agrees to implement a formal reconciliation process.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DET has written policies and procedures for their drawdown reconciliation process.

Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Labor
Fiscal Year	2010
Reference Number	10-DOL-08
Related Prior Year Findings	09-DOL-02
Program Name (CFDA No.)	Work Investment Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Eligibility
Criteria	**1) Eligibility for Individuals** *a) All Programs* *Selective Service* – No participant may be in violation of section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under that Act (29 USC 2939(h)). b) *All Subtitle B Statewide and Local Programs* 1) An adult must be 18 years of age or older. 2) A dislocated worker means an individual who meets the definition in 29 USC 2801(9). 3) A dislocated homemaker means an individual who meets the definition in 29 USC 2801(10). 4) Before receiving training services, an adult or dislocated worker must have received at least one intensive service, been determined to be unable to obtain or retain employment through intensive services, and met all of the following requirements (20 CFR sections 663.240 and 663.310): a) Had an interview, evaluation, or assessment and determined to be in need of training services and have the skills and qualifications to successfully complete the selected training program. b) Selected a training service linked to the employment opportunities. c) Was unable to obtain grant assistance from other sources, including other Federal programs, to pay the costs of the training. *c) Subtitle B Youth Activities* A person is eligible to receive services under Youth Activities if they are between the ages of 14 and 21 at the time of enrollment (20 CFR section 664.200) and demonstrate at least one of the following barriers to employment: deficient in basic literacy skills; a school dropout; homeless; a runaway; a foster child; pregnant or parenting; offender; or an individual who requires additional assistance to complete an educational program, or to secure and hold employment (20 CFR sections 664.200, .205, and .210). WIA is required to determine eligibility for all participants based on the criteria above, in addition to correctly calculating the benefit to be paid to the participant and ensuring the benefit is discontinued with eligibility expires. Furthermore, an Employment Development Plan should be completed and reviewed for eligible participants.
Condition	Per review of the WIA Program Employment Development Plans (EDP), KPMG noted the following:

	• For one of the 65 EDPs reviewed, there was no evidence of proper review by management, which should be evidenced by a signature on the face of the documents. • For ten of the 65 files selected, the EDPs did not have the eligibility checklists within them, which are used to indicate that the eligibility criteria have been met for the participant to receive services. • Two of the 65 files requested for testing could not be located in timely manner. • One file had a client coded as dislocated worker and only qualified as WIA Adult program.
Cause	Controls are not operating effectively to ensure management is properly reviewing and maintaining client files.
Effect	Claimants who were not eligible under WIA criteria may have inappropriately received benefits from the Program.
Recommendation	The WIA Program should implement a tickler system control to ensure all client files (EDPs) are being reviewed and client files maintained.
Questioned Costs	Questioned costs are $512 for client coded as dislocated worker.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	During a time of transition between a previous site manager and the new site manager at a youth provider site in Georgetown, an administrative oversight occurred. The Individual Service Strategy (ISS) for one client was not signed off on by the client or management. As a result of this finding, DOL was able to obtain the signature of the site manager however the site manager was unable to locate the youth to obtain his signature. ETO Policy 28 – Individual Service Strategy in the DOL/DET Contractor's Procedure Guide does address the requirement for both client and management signatures. The eligibility checklist is used to document what supporting documentation has been used to determine eligibility. Eligibility documentation can be found in Tab 2 of the participant file. Eligibility checklists are not used to determine if eligibility criteria has been met. The participants in question are eligible and the files contain the documentation to support this. The two files that could not be found have been located. Both participants were involved with the Advance Staffing – Intensive Service program. In the beginning of the program, it was decided that the contractor would determine eligibility and submit participant eligibility documentation to DOL/DET directly. Therefore, DOL/DET has in its possession the two participant files that include documentation to support participant eligibility.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Additional training was provided to staff to reinforce the policy and procedures in place.
Anticipated Completion Date (if not Fully corrected).	Ongoing

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Labor
Fiscal Year	2010
Reference Number	10-DOL-09
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Work Investment Act Cluster (S-17.258, S-17.259, S-17.260)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Reporting – Section 1512
Criteria	Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients no later that the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009). The Delaware OMB 1512 Reporting Instruction Manual also states, "Prime recipients and approved delegated subrecipients must also complete and have appropriate signed approval from the agency head for each report filed prior to uploading to the federal reporting system. A form for this purpose can be located at http://ww.omb.delaware.gov/arra/index.html and a copy is to be emailed to OMB_ARRA1512@state.de.us or faxed to (302)739-5661." Copies of the final spreadsheet uploaded to the federal reporting system, as well as the sign-off sheet are to be emailed to OMB_ARRA1512@state.de.us. The Delaware OMB 1512 Reporting Instruction Manual also states "Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as "instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity." A significant reporting error is defined as "instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will my misled or confused by the recipient report in question. "The Prime recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report. The Delaware OMB 1512 Reporting Instruction Manual states "Data quality (i.e. accuracy, completeness and timely reporting of information) reviews required by the OMB June 22 Guidance are intended to avoid two key data problems – material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Subrecipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and subrecipients should establish internal controls to ensure completeness, accuracy, and timely reporting of all amounts funded by the Recovery Act." In addition, the State of Delaware OMB/DOA ARRA of 2009 Internal Control Guideline dated November 24, 2009 states "Organizations must set up a process for review of data quality to ensure information submitted for reporting the use of ARRA funds is accurate and timely.

Condition	The DET did not submit the ARRA 1512 Report Approval Record to OMB for the reporting period ending March 31, 2010 as required by the Delaware OMB 1512 Reporting Instruction Manual. In addition, the DET's supporting documentation for the 1512 report did not have discernible evidence of management review and approval. Further, DOL, Workforce Investment Act/Dislocated Worker's 1512 report contained the following errors in the subrecipient tab: • Amount of Sub Award for two subrecipients were erroneously under-reported by a total of $80. • Total Sub Award Funds Disbursed for two subrecipients were erroneously reported resulting in an understatement of expenditures of $30,250. Expenditures of $160,578 and $43,255 should have been reported as $180,578 and $53,505 respectively. • In addition, one subrecipient with an award amount of $98,628 was completely omitted from the subrecipient tab. Proper management review of the supporting documentation to the 1512 report may have caught these errors before it was submitted.
Cause	DET was not aware of the requirement to send the ARRA 1512 Report Approval Record. There was also no procedure in place for adequate management review of the supporting documentation and 1512 report before it was submitted to federalreporting.gov.
Effect	The purpose of the approval form is to ensure that there are no material omissions or significant reporting errors in the quarterly report. Failure to certify the accuracy of the report does not ensure the reported information is complete and accurate. Lack of management review and clear supporting documents may leave errors undiscovered. On the subrecipient level, the March 31, 2010 1512 Report submitted by DOL, Division of Employment and Training contained significant reporting errors. Continued non-compliance with ARRA reporting requirements could result in termination of the award, reclaiming of funds, and potential punitive actions.
Recommendation	The DET should ensure the quality of the reported data by adequately reviewing the information before submitting it to the Federal government and certify the review by submitting the ARRA 1512 Report Approval Record. In addition, the DOL, Division of Employment and Training, should implement a management review process to ensure that the 1512 Report is free of errors before submission.
Questioned Costs	There are no questioned costs for the subrecipient expenditures not reported on the Section 1512 Report.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	DET has implemented new 1512 procedures based on an audit recommendation by the AOA for the State of Delaware. We received these findings in October 2010. These procedures address submitting the ARRA 1512 report approval record and an additional level of approval for the ARRA 1512 reports. Although the sub-recipient award was not included on the sub-recipient tab, the expenditures associated with the contract were reported in the accrual amount on the 1512 report. This

	finding has been corrected on subsequent 1512 reports.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DET has implemented new 1512 procedures including an additional level of approval.
Anticipated Completion Date (if not Fully corrected).	June 30, 2012

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Labor
Fiscal Year	2010
Reference Number	10-DOL-10
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Unemployment Insurance (17.225, S-17.225)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Reporting
Criteria	Non-Federal entities may be required to submit other reporting which may be used by the Federal Agency for such purposes as allocating program funding. Compliance testing of performance and special reporting are only required for data that are quantifiable and meet the following criteria": a. Have a direct and material effect on the program. b. Are capable of evaluation against objective criteria state in laws, regulations, contact or grant agreement pertaining to the program. The Delaware Unemployment Insurance Program is required to submit one Special Report - the ETA 2208A, Quarterly UI Contingency Report, which is a quarterly report of staff years worked and paid by program category. Financial reports should be reported in accordance with required accounting basis and trace to supporting documentation which trace and agree to DFMS. The reports are mathematically correct and all applicable accounts and elements are included within the report.
Condition	One out of four ETA2208A, Quarterly UI Contingency Reports selected for testing did not agree to supporting documentation due to a transmission failure that occurred while uploading the reports into the Federal system. As Federal policy disallows reports to be re-transmitted, the data presented could not be corrected. The error resulted in an overstatement of expenditures by $14,000.
Cause	The transmission error occurred while uploading the final copy onto the Federal system, and management did not detect it prior to submission.
Effect	The ETA2208A Report was overstated by $14,000 resulting in the UI Program being funded $14,000 more than it should have been.
Recommendation	DOL should utilize control totals to validate that reporting uploads are accurately entered into the system.
Questioned Costs	Questioned costs per the Report that were overstated are $14,000.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Corrective Action Plan	While the Division of Unemployment Insurance concurs with this audit finding, it is important to note there appears to have been a processing error for this report in the U.S. DOL-ETA automated reporting system. However, neither the Division nor the U.S. DOL-ETA is able to conclusively show that the $14,000 error was due to federal automated

	system error or by human error within the Division. Accordingly, the Division accepts this audit finding and will wait for instruction/direction from the U.S. DOL-ETA regarding any required, if any, corrective action.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The payment of $14,000 was remitted to the U.S. Department of Labor in October 2011.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Safety and Homeland Security Delaware Emergency Management Agency
Fiscal Year	2010
Reference Number	10-DSHS-01
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Homeland Security Grant Program (97.067)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Reporting
Criteria	Delaware Emergency Management Agency (DEMA) is required to report actual expenditures on a quarterly basis on the Standard Form 425 (SF-425), Financial Status Report.
Condition	In performing our testing of quarterly financial reports, we noted that DEMA incorrectly reported the following amounts in the SF-425 forms: • $116,814 understatement in the unobligated balance of federal funds line for the period ended June 30, 2010 • $136,726 understatement in cash receipts for the period ended March 31, 2010
Cause	Management oversight regarding the review of expenditures reported in quarterly SF-425 forms.
Effect	DEMA did not accurately report the unobligated balance of federal funds amount in the SF-425 form to the Federal Emergency Management Agency for the period ended June 30, 2010, and did not accurately report the cash receipts amount in the SF-425 form to the Federal Emergency Management Agency for the period ended March 31, 2010.
Recommendation	We recommend that DEMA strengthen internal controls to ensure that the identification of errors in reporting information occurs prior to submission of the SF-425 Form to the Federal Emergency Management Agency. In addition, we recommend that DEMA submit revised SF-425 forms for the quarters ended March 31, 2010 and June 30, 2010 to correct the errors noted in each respective report.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Bob Harrison, Fiscal Administrative Officer
Agency Contact Phone Number	(302) 659-2244
Corrective Action Plan	This was an oversight on the part of the DEMA Fiscal Officer. The error was corrected the following quarter. DEMA's Fiscal Officer will endeavor to be more vigilant to ensure all reports are prepared error free in the future.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	This was an oversight on the part of the DEMA Fiscal Officer. The error was corrected the following quarter. DEMA's Fiscal Officer will endeavor to be more vigilant to ensure all reports are prepared error free in the future.

Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Safety and Homeland Security Delaware Emergency Management Agency
Fiscal Year	2010
Reference Number	10-DSHS-02
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Homeland Security Grant Program (97.067)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Subrecipient Monitoring
Criteria	CFR 44 § 13.40, Monitoring and reporting program performance, states the following: Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity. Per 31 USC. Sec. 7502, each pass through entity shall: (a) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; (b) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means; (c) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and (d) require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the passthrough entity to comply with this chapter. Per OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, Subpart CAuditees §___.300 Auditee responsibilities, an auditee must: (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
Condition	For one of two subrecipients selected for testwork, we noted that DEMA did not ensure that the subrecipient (City of Wilmington) properly reported the amounts received from DEMA in the SEFA included in their Single Audit Report. As part of our procedures, we reviewed the 2009 single audit report for the City of Wilmington, noting that the $501,741 passed through from DEMA to City of Wilmington in fiscal year 2009 was not included in their June 30, 2009 SEFA.
Cause	Management oversight regarding the review of subrecipient audit reports to ensure that subrecipients properly reported funds passed through by DEMA on their SEFA.
Effect	Pass through funds, if improperly excluded from a subrecipient's SEFA, place the subrecpient in violation of the provisions of OMB Circular A-133 as noted above, and may result in the program not being audited at the subrecipient level.
Recommendation	We recommend that DEMA strengthen internal controls regarding the subrecipient

	monitoring process (and related monitoring checklist) to ensure that subrecipients properly reported the amounts received from DEMA in the SEFA included in their Single Audit Report.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Bob Harrison, Fiscal Administrative Officer
Agency Contact Phone Number	(302) 659-2244
Corrective Action Plan	The DEMA sub-Recipient Monitor Program will be updated to include provisions to notify subrecipients in the future when it is noted that any federal funds DEMA is responsible for are not included in their audit as required by OMB Circular A-133.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The DEMA Sub-recipient monitoring checklist was updated to include step requiring a review of whether amounts received from DEMA are properly reported in the subrecepient's SEFA and a notification process for an exceptions noted as a result of that review process.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Delaware National Guard
Fiscal Year	2010
Reference Number	10-DNG-01
Related Prior Year Findings	N/A
Program Name (CFDA No.)	National Guard Military Operations and Maintenance (O&M) Projects (S-12.401)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Davis-Bacon Act
Criteria	Non-Federal entities should include in their construction projects subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (OMB No. 1215-0149).
Condition	During fiscal year 2010, $1,024,987 in federal funds were expended on two ARRA related construction projects for which the contractor did not contemporaneously submit certified payroll records to the State. Both of these projects were 100% federally funded. Although the Delaware National Guard was aware that the federal prevailing wage rates applied and the contractors were so informed, the Delaware National Guard did not have policies and procedures in place to require submission of and monitor certified payrolls.
Cause	Under State law, State-funded construction projects follow a separate set of prevailing wage rate regulations. Under these regulations, contractors are not required to submit certified payrolls to the State of Delaware but must retain them on file for a period of three years. The State Department of Labor, Division of Labor Law Enforcement, is responsible for oversight of prevailing wage rates for State-funded construction projects, but does not have responsibility for federally funded projects. The Delaware National Guard was not aware that State Department of Labor, Division of Labor Law Enforcement, does not provide oversight over wage rates for federally funded projects.
Effect	Differences between State and Federal requirements concerning prevailing wage rates have resulted in a lack of clarity concerning requirements and responsibilities related to federally funded or jointly funded construction projects. As a result, the oversight required by Davis-Bacon is not being performed by the State Department of Labor, Division of Labor Law Enforcement, or by the Delaware National Guard for projects related to the program.
Recommendation	Because the State Department of Labor, Division of Labor Law Enforcement does not have responsibility for oversight of federal construction projects, we recommend that the Delaware National Guard develop policies and procedures related to federally funded projects that include procedures and assignment of responsibility for monitoring Davis-Bacon Act submissions from contractors at the Department level.
Questioned Costs	Questioned costs are not determinable, but could be no more than the total ARRA funds expended in fiscal year 2010 of $1,024,987 related to these two projects.
Agency Contact	Art Caldwell

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Name	
Agency Contact Phone Number	(302) 326-7160
Corrective Action Plan	When necessary, the Delaware National Guard has been including language in its Federally funded contracts that contractors are responsible for complying with Davis-Bacon wage requirements, but has not been verifying contractor compliance on all of its contracts. This Department agrees that policies and procedures should be promulgated relative to mandatory Davis-Bacon requirements for Federal funded contracts.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☒
Description of Status	Policies and procedures are in place for non-ARRA funding. Finding was related to ARRA funding. All ARRA projects for the program were fully expended as of June 30, 2010.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Delaware National Guard
Fiscal Year	2010
Reference Number	10-DNG-02
Related Prior Year Findings	09-DNG-01
Program Name (CFDA No.)	National Guard Military Operations and Maintenance (O&M) Projects (12.401, S-12.401)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Equipment and Real Property Management
Criteria	Per the Master Cooperative Agreement – Section 606, National Guard Regulation 5-1 (April 2008), Chapter 7, Section 7-1 and 7-2, and 10 CFR Part 33 section 33, title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established. A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.
Condition	Capital Outlays are reviewed and approved by authorized signors and correspondingly recorded to the Financial System (DFMS) report. Two of the three capital outlays for fiscal year 2010 exceeding the $5,000 threshold, totaling $21,790, were not properly recorded on the listing of federal assets for the Delaware National Guard (DNG) as of June 30, 2010. DNG's policy is to record all federal fixed assets over the $5,000 threshold in the State's Fixed Asset Accounting System (FAAS).
Cause	DNG does not have a formal reconciliation process in place to ensure that all capital outlay for federal equipment exceeding the $5,000 threshold is appropriately recorded in their inventory of federal equipment (per FAAS), as required by the Master Cooperative Agreement, National Guard Regulation 5-1, and 10 CFR Part 33.
Effect	Federally funded equipment purchases for the program may not be recorded on the State's asset listing in DFMS.
Recommendation	We recommend that DNG implement a formal reconciliation process to ensure that all capital outlays are appropriately reviewed and recorded.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Art Caldwell
Agency Contact Phone Number	(302) 326-7160
Corrective Action Plan	A formal reconciliation process to ensure that all Federal as well as State capital outlays are appropriately reviewed and recorded began during the quarter ended September 30, 2010.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐

	No longer warranting further action.☐
Description of Status	A formal reconciliation process has been implemented to ensure that all Federal as well as State capital outlays are appropriately reviewed and recorded.
Anticipated Completion Date (if not Fully corrected).	N/A

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Delaware National Guard
Fiscal Year	2010
Reference Number	10-DNG-03
Related Prior Year Findings	N/A
Program Name (CFDA No.)	National Guard Military Operations and Maintenance (O&M) Projects (12.401, S-12.401)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Procurement
Criteria	In addition to those statutes listed in the A-102 Common Rule and OMB Circular A-110, Section 1605 of ARRA prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. ARRA provides for waiver of these requirements under specified circumstances. An award term is required in all ARRA-funded awards for construction, alteration, maintenance, or repair of a public building or public work (2 CFR section 176.140).
Condition	We noted that the Delaware National Guard did not have appropriate documentation in the project files for ARRA funded projects to demonstrate that the purchase of project materials were made in compliance with the Buy-American provisions. During fiscal year 2010, $1,906,005 in federal funds were expended on six ARRA related construction projects.
Cause	The Delaware National Guard was not aware of the Buy-American requirements for ARRA funded projects.
Effect	Procurements may not be in compliance with the Buy-American provisions for ARRA funded projects.
Recommendation	We recommend that the Delaware National Guard review its grant requirements to ensure compliance with grant agreements. We also recommend that Delaware National Guard maintain adequate documentation in its project files for ARRA funded projects to ensure compliance with all applicable ARRA requirements, including the provisions of Buy-American.
Questioned Costs	Questioned costs are not determinable, but could be no more than the total ARRA funds expended in fiscal year 2010 of $1,906,005.
Agency Contact Name	Art Caldwell
Agency Contact Phone Number	(302) 326-7160
Corrective Action Plan	The Delaware National Guard was aware of the Buy American requirements for ARRA funded projects, but did not verify contractor compliance with this requirement during FY 2010. To the best of our knowledge, this Department is not aware of any iron, steel, or manufactured goods used in its ARRA projects that were purchased from out-of-country sources. The Department's ARRA projects were all completed in June 2010, so adequate documentation by vendors and contractors of mandatory Buy-American provisions on any Federal funded projects will be maintained in the Department's Facilities Management Office beginning in July 2010. Since labor was a significant component in the Department's six ARRA energy enhancement projects, the Delaware National Guard does not agree that its noncompliance could have been as high as $1,906,005 – which represents 100% of FY

	2010 ARRA expenditures.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☒
Description of Status	Finding was related to ARRA funding. All ARRA projects for the program were fully expended as of June 30, 2010.
Anticipated Completion Date (if not Fully corrected).	N/A

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Delaware National Guard
Fiscal Year	2010
Reference Number	10-DNG-04
Related Prior Year Findings	N/A
Program Name (CFDA No.)	National Guard Military Operations and Maintenance (O&M) Projects (12.401, S-12.401)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Reporting
Criteria	Per National Guard Regulation 5-1 (April 2008), Chapter 10, Section 10-5, the Delaware National Guard is required to report actual expenditures, requested for reimbursement, on the Standard Form 270 (SF-270), Financial Status Report, and to submit these reports with supporting documentation of the amounts expended.
Condition	Based on our review of the reports submitted by the Delaware National Guard for the National Guard O&M Projects program, we noted the following variances in the non-federal share amounts: <u>Appropriation 1628 – ARRA Stimulus Funding</u> The cumulative non-federal share on the December 2009 report for this appropriation of $159,357 was understated by $3,850 from the amounts per DFMS. The federal share for this appropriation was correctly reported on the December 2009 report. The non-federal share on the June 2010 report for this appropriation of $165,473.34 was understated by $128,666.66 from the amounts per DFMS. The federal share for this appropriation was correctly reported on the June 2010 report. <u>Appropriation 1001 – ROPM</u> The total program outlays to date on the June 2010 report for this appropriation of $2,053,705.38 were understated by $18,884.56, due to mathematical error where the sum of the non-federal share and federal share lines did not equal the total program outlays to date reported. Both the federal and non-federal share for this appropriation were correctly reported on the June 2010 report.
Cause	DNG did not provide proper oversight during the review process for SF-270 reports to ensure that all amounts reported appropriately reconciled to supporting DFMS reports.
Effect	Non federal share amounts, as included in SF-270 reports, did not agree to the amounts supported by DFMS reports.
Recommendation	We recommend that DNG reinforce policies and procedures regarding the review of financial reports to ensure that all amounts included in the financial reports (including non-federal share amounts) properly reconcile to supporting DFMS reports prior to submission to the federal government.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Art Caldwell
Agency Contact Phone Number	(302) 326-7160

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Corrective Action Plan	Beginning in March 2011, the DNG State Comptroller will confirm that all non-federal as well as federal amounts listed in the monthly SF-270 Reports prepared by the DNG Budget Analyst properly reconcile to supporting First State Financial (FSF) reports prior to submittal to the federal government.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Formal reconciliation process was implemented in March 2011 to confirm that all non-federal as well as federal amounts listed on the monthly SF-270 Reports properly reconcile to the supporting FSF reports prior to submission to the federal government.
Anticipated Completion Date (if not Fully corrected).	N/A

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Delaware National Guard
Fiscal Year	2010
Reference Number	10-DNG-05
Related Prior Year Findings	N/A
Program Name (CFDA No.)	National Guard Military Operations and Maintenance (O&M) Projects (S-12.401)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Reporting (ARRA 1512)
Criteria	Section 1512 of ARRA includes reporting requirements applicable to recipients of awards. This section requires the Delaware National Guard to report actual expenditure information and other data elements for ARRA projects on a quarterly basis.
Condition	Based on our review of the March 31, 2010 reports submitted by the Delaware National Guard for the National Guard O&M Projects program, we noted the following variances: The "Total Federal Amount of ARRA Expenditure" amount reported of $1,925,379.45 was overstated by $16,183.13 from the total expenditures per supporting DFMS reports. The expenditure amount included in the 1512 report included April expenditures through the date of report was prepared and submitted, instead of through the date of the report (March 31, 2010). The "Total Amount of Payments to Vendors less than $25,000/award" amount reported of $206,588.58 was understated by $7,802.99 from the amounts supported by DFMS.
Cause	State OMB directives resulted in DNG resubmitting the March 31, 2010 report with incorrect information, as noted above. We noted that the original DNG submitted report properly reconciled to DFMS.
Effect	Amounts reported in the Section 1512 reports were misstated.
Recommendation	We recommend that DNG reinforce policies and procedures regarding the review of ARRA 1512 reports to ensure that all amounts included in the reports properly reconcile to supporting DFMS reports prior to submission to the federal government.
Questioned Costs	Questioned costs are $16,183.13, the amount that should not have been included in "total federal amount of ARRA expenditure" in the March 31, 2010 report.
Agency Contact Name	Art Caldwell
Agency Contact Phone Number	(302) 326-7160
Corrective Action Plan	All ARRA expenditures and reimbursements authorized the Delaware National Guard were completed in June 2010, which was the last month covered by this A-133 Audit. If the Department's Facilities Management Office has a need to prepare and file ARRA or similar reports in the future, the DNG State Comptroller's Office will conduct an internal audit of each Report for accuracy and completeness prior to submittal to the federal government.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☒

Description of Status	Finding was related to ARRA funding. All ARRA projects for the program were fully expended as of June 30, 2010.
Anticipated Completion Date (if not Fully corrected).	N/A

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Natural Resources and Environmental Control
Fiscal Year	2010
Reference Number	10-DNR-01
Related Prior Year Findings	N/A
Program Name (CFDA No.)	State Energy Program (81.041, S-81.041)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Cash Management
Criteria	Per terms of the grant agreement: Requests for advances must be made through the ASAP system. You may submit requests as frequently as required to meet your needs to disburse funds for the Federal share of project costs. If feasible, you should time each request so that you receive payment on the same day that you disburse funds for direct project costs and the proportionate share of any allowable indirect costs. If same-day transfers are not feasible, advance payments must be as close as is administratively feasible to actual disbursements. …If you earn program income during the project period as a result of this award, you may add the program income to the funds committed to the award and use it to further eligible project objectives. Per 10 CFR 600, § 600.221 Payment (this CFR is referenced as applicable guidance in the grant agreement): (a) *Scope.* This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors. (b) *Basic standard.* Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205. (c) *Advances.* Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee. (i) *Interest earned on advances.* Unless there are statutory provisions to the contrary, grantees and subgrantees shall promptly, but at least quarterly, remit to the Federal agency interest earned on advances. The grantee or subgrantee may keep interest amounts up to $100 per year for administrative expenses.
Condition	We noted, that for one of the seven advances tested, requested on June 25, 2010 for $10,110,000, the advance request was not timed to minimize the time between transfer of funds from the federal government and expenditure of funds for the program. These amounts were passed through to the Sustainable Energy Utility, a blended component unit of the State, for use in paying rebates for programs. Per discussion with DNREC program

	personnel, the amount requested was in anticipation of the implementation of the State First State Financials (FSF) system, and in anticipation that there would be significant participation in the rebate programs for which the SEU uses program funds. However, the program overestimated the funds needed for program expenses; nearly the entire $10.1M remains in an interest bearing account as of the end of December. We noted that this advance payment to a blended component unit did not conform to the timing requirements that apply to the pass through entity (as noted above). We further note that this instance of noncompliance is driven by the lack of an internal control to ensure that advance amounts requested adhere to the terms of the grant agreement and 10 CFR 600, § 600.221 prior to the submission of the advance request within ASAP. We did note, however, that the Program is in compliance with the treatment of interest earned on the advance amount.
Cause	The State Energy Program did not have established internal control policies and procedures in place to ensure that amounts requested through the ASAP system were properly supported prior to the request for funding being submitted. In addition, the Program did not time advance requests, and review the use of the advanced funds, to ensure that the use of funds adhered to the terms of the grant agreement and 10 CFR 600, § 600.221.
Effect	Without a management review control in place, DNREC may request funds in a manner which is not in compliance with terms of the grant agreement.
Recommendation	We recommend that the State Energy Program develop internal control policies and procedures regarding ASAP funding requests, that require a management review and approval process over requested amounts prior to the submission of the funding request within ASAP. In addition, we recommend that management review the use of advance funds passed through to component units and subrecipients to ensure that the use of funds adheres to the terms of the grant agreement and 10 CFR 600, § 600.221.
Questioned Costs	Questioned costs for this finding are $10,100,000, the total amount of the advance not requested in accordance with terms of the grant agreement and 10 CFR 600, § 600.221.
Agency Contact Name	Rebecca Zink, DNREC Fiscal Administrative Officer
Agency Contact Phone Number	(302) 739-9903
Corrective Action Plan	The Department does have established internal control policies and procedures in place. The Department has both a Purchasing and Signature policy for establishing internal controls of documents. In order for funds to be drawn from ASAP each request corresponds to a voucher, which is paying from an encumbrance or established Purchase Order following the State and Department Procurement Policy adhered to 10 CFR 600.236. Grant draws are taken from ASAP weekly on documents that have processed the previous week. The Department did review the use of the advanced funds by the subrecipient, to ensure that the use of funds adhered to the terms of the grant agreement. Within the Special Terms and Conditions for the grant agreement it refers to the SEP Narrative Information Worksheet/State Plan. This plan included four activities that were approved July 1, 2009, the State Title of Buildings/Technical Assistance defines a budget of $12 million which operates as a revolving loan program and allows residents to benefit for years to come. Revolving Loan Funds (RLF) and loan loss reserves may be drawn down in advance to capitalize the RLF at the time the fund is obligated and are not subject to the requirement that they must be disbursed within three days which is referenced from 31 CFR 205.15 and 10 CFR 205.25. Interest earned from the time that revolving loan funds are advanced to the time loans are

	made are contractually committed to support specific loans or portfolios of loans must be treated as program income and rolled back into the fund or another approved, eligible activity. However, if a grantee chooses not to roll interest earned back into the revolving loan fund or use it for another approved eligible activity, they must return it to the Federal Government 31 CFR 205.15, 205.25, 10CFR 420.18(d). DNREC has currently reached out to our project manager with Department of Energy and to Division of Accounting Staff for further guidance and is awaiting response.
Finding Status	Fully Corrected. ☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DNREC reached out to our project manager and wrote the General Council with the Department of Energy and Division of Accounting (DOA) Staff. Their recommendation was to bring back in the remaining loan funds and interest and allowed DNREC to administer the loan program. The interest that was earned was in turn put back into the loan program. In this process we worked with DOA to create a new project and brought back the funds as a negative expenditure in 12/2011. The new project was un-linked from ASAP and does not create an invoice when expended from. The Division of Energy & Climate expects to expend all the funds remaining before the end of the grant.
Anticipated Completion Date (if not Fully corrected).	This finding has been corrected as of 12/2011; DNREC has moved forward with expending the funds for their loan program and will expend the funds before the end of the grant

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Natural Resources and Environmental Control
Fiscal Year	2010
Reference Number	10-DNR-02
Related Prior Year Findings	N/A
Program Name (CFDA No.)	State Energy Program (81.041, S-81.041)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Subrecipient Monitoring
Criteria	A pass-through entity is responsible for (1) ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133… and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after the receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions (OMB Circular A-133 Compliance Supplement, Part 3, Section M). A pass-through entity is responsible for evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations (OMB Circular A-133 Compliance Supplement, Part 3, Section M). Per 10 CFR 600 and the terms of the grant agreement require the pass through entity to ensure that subrecipients comply with all applicable procurement, suspension and debarment requirements (including ARRA Buy American provisions) and comply with the provisions of Davis-Bacon.
Condition	In our testing of the one subrecipient for the Program subject to subrecipient monitoring provisions in FY2010, Applied Energy Group (AEG), we noted that the Program does not have established monitoring procedures in place or controls in place to ensure compliance with general requirements as detailed in OMB Circular A-133 Compliance Supplement, Part 3, Section M) or program specific compliance requirements, as detailed in the grant agreement and 10 CFR 600. Specifically we noted the following: • There are no established subrecipient monitoring policies and procedures or internal controls (to ensure compliance with these requirements) in place for the Program. • DNREC does not have a monitoring process in place to ensure that subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements. • DNREC does not have during the award monitoring procedures in place over subrecipients to ensure that corrective action on deficiencies is completed. • DNREC does not perform monitoring of the procurement process utilized by subrecipients to ensure compliance with State and/or federal guidelines for procurement. The same is true to verification that parties contracted with are not on the EPLS listing.

	• DNREC has no monitoring process in place to ensure that: - the required A-133 audits are completed for subrecipients, - the A-133 reports are received and reviewed by DNREC for all subrecipients, - appropriate follow up on corrective action for findings is completed. In addition, we noted that the Sustainable Energy Utility (SEU), is a blended component unit of the State. As a result, the Program improperly classified the SEU as a subrecipient in error. An entity cannot be a subrecipient of itself.
Cause	DNREC improperly classified the AEG as a vendor for program administration purposes for most areas (the only place the entity was properly classified as a subrecipient was on ARRA 1512 reports).
Effect	Management's classification of AEG as a vendor resulted in a lack of subrecipient monitoring performed for the entity to ensure compliance with all applicable requirements noted above.
Recommendation	We recommend that the State Energy Program develop internal control policies and procedures regarding monitoring of subrecipients, to ensure that all required monitoring activities are being performed to ensure subrecipient compliance with applicable federal requirements.
Questioned Costs	Questioned costs as of June 30, 2010 are $649,349, the amount passed through to AEG.
Agency Contact Name	Rebecca Zink, DNREC Fiscal Administrative Officer
Agency Contact Phone Number	(302) 739-9903
Corrective Action Plan	DNREC has the SEU as the subrecipient of the SEP ARRA grant currently. A Memorandum of Understanding (MOU) has been executed between DNREC, the SEU, AEG and Belfint Lyons & Shuman (Fiscal Agent). Majority of the programs identified in the Department of Energy grant application are to be carried out or directed by the SEU. All flow down requirements are detailed within the MOU. As a result of this finding we are currently working with the Division of Accounting and The Department of Energy to see exactly how the SEU best fits within this grant.
Finding Status	Fully Corrected. ☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DNREC has changed its approval process in regards to Section 1512 and Quarterly 425 reporting. We are using reports that show approved and posted documents in which the Fiscal Administrative Office approves. These reports and figures are then sent to the Department of Energy & Climate for them to approve. DNREC has also worked with the Division of Accounting and Department of Energy and it was determined that the SEU is a blended component unit and was included in the 2011 State CAFR. Since the finding the SEU is working with an outside accounting firm to create a compliant financial statement and they are auditing each of their accounts; DNREC is hopeful to have a compliant financial statement by June 2012.
Anticipated Completion Date (if not Fully corrected).	The anticipated completion date for this finding is June 2012

Agency	Department of Natural Resources and Environmental Control
Fiscal Year	2010
Reference Number	10-DNR-03
Related Prior Year Findings	N/A
Program Name (CFDA No.)	State Energy Program (S-81.041)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Reporting (ARRA 1512)
Criteria	Federal OMB M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009 (*June 22, 2009), provides guidance covering the reporting requirements of Section 1512 of ARRA and includes two supplements: (1) a list of programs subject to the ARRA reporting requirements, and (2) a Recipient Reporting Data Model. M-09-21 provides extensive guidance for recipients and Federal agencies. The federal guidance in this document has been incorporated into the *Delaware OMB §1512 Reporting Instruction Manual.* The *Delaware OMB §1512 Reporting Instruction Manual* states: "Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity. A significant reporting error is defined as instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will be misled or confused by the recipient report in question. **The Prime Recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report.**" The *Delaware OMB §1512 Reporting Instruction Manual* also states "Data quality (i.e., accuracy, completeness and timely reporting of information) reviews required by the OMB June 22, 2010 Guidance are intended to avoid two key data problems -- material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Sub-recipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and sub-recipients should establish internal controls to ensure completeness, accuracy and timely reporting of all amounts funded by the Recovery Act." In addition, the State of Delaware OMB/DOA ARRA of 2009 Internal Controls Guideline dated November 24, 2009, states, "Organizations must set up a process for review of data quality to ensure information submitted for reporting the use of ARRA funds is accurate and timely."
Condition	The DNREC, State Energy Office's (SEO), supporting documents for the §1512 Report did not have evidence of management review and approval. Although the Prime Recipient amounts were reported correctly, the subrecipient amounts contained errors as described below. Proper management review of the supporting documentation to the §1512 Report

	may have discovered these errors before it was submitted. The DNREC, State Energy Office's §1512 Report contained errors in the sub-recipient tab for *Amount of Sub Award* and for *Total Sub Award Funds Disbursed*. The sub award amount reported was $608,195.85 instead of the actual amount of $870,000. Funds disbursed were reported to be $309,787.91 instead of $608,195.85, resulting in an understatement of expenditures of $298,407.94. The SEO could not determine the origin of the $309,787.91. Proper management review of the supporting documentation to the §1512 Report may have discovered these errors before it was submitted. We further noted that the detail tab of sub award funds disbursed summed to $308,787.91, a $1,000 variance from the $309,787.91 reported on the sub award summary tab. In addition, we noted that the June 30, 2010 ARRA 1512 report reported total federal amount of ARRA expenditures of $10,908,752.96. Of this total, $10,110,000 represents funds moved from DNREC to the SEU. Because both DNREC and the SEU are both a part of the entity of the State of Delaware, the $10.1M was not expended in the fiscal year. As a result, the total federal amount of ARRA expenditure on the June 30, 2010 report is overstated by $10.1M. Because the SEU is a blended component unit of the State of Delaware, the SEU is inappropriately classified as a subrecipient in the ARRA 1512 reports filed for the program.
Cause	Totals were not entered into the correct cells on the §1512 Report due to confusion on the part of DNREC, State Energy Office personnel. In addition, there was no procedure in place for adequate management review of the supporting documentation and §1512 Report before it was submitted to FederalReporting.gov.
Effect	Failure to certify the accuracy of the report does not ensure the reported information is complete and accurate and may leave errors undiscovered. The March 31, 2010 and June 30, 2010, §1512 Reports submitted by the DNREC, State Energy Office contained significant reporting errors. Continued non-compliance with ARRA reporting requirements could result in termination of the award, reclaiming of funds, and potential punitive actions.
Recommendation	The DNREC, State Energy Office should ensure the quality of the reported data by adequately reviewing the information before submitting it to the federal government. The DNREC, State Energy Office should retain all documentation (DFMS reports, tracking spreadsheets, etc.) to support the information reported on the §1512 Report and implement a management review process to ensure that the §1512 Report is free of errors before submission.
Questioned Costs	Questioned costs are $10,110,000, the amount included in the total federal amount of ARRA expenditures that was not expended during the fiscal year.
Agency Contact Name	Rebecca Zink, DNREC Fiscal Administrative Officer
Agency Contact Phone Number	(302) 739-9903
Corrective Action Plan	The Department has modified its procedures in regards to Section 1512 Reports. Beginning with the July, 2010 Section 1512 report, the Director of Energy and Climate verifies and approves the data that is submitted to Federalreporting.gov.
Finding Status	Fully Corrected. ☒ Not Corrected or Partially Corrected. ☐

	Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As described in the Corrective Action Plan as of July 2010 Section 1512 reporting Financial Services gathers the financial reports and figures. This documentation is approved by the Fiscal Administrative Officer and then is sent to the Department of Energy and Climate (DE&C) At DE&C the figures are used to compile the reports and then the final report is approved by the Director of Energy & Climate.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Natural Resources and Environmental Control
Fiscal Year	2010
Reference Number	10-DNR-04
Related Prior Year Findings	N/A
Program Name (CFDA No.)	State Energy Program (81.041, S-81.041)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Allowable Costs (Effort Reporting)
Criteria	Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)
Condition	The DNREC, State Energy Office did not require time and effort reporting certifications for federally funded programs as required in OMB Circular A-87. The State Energy Office used a pre-determined distribution percentage of 75% for the payroll of two employees to be charged to the State Energy Program. The State of Delaware Office of Auditor of Accounts (AOA) tested a total of $14,490 in payroll transactions, of which $10,865 (75%) was charged to the program without time and effort certifications. However, total payroll charged to this ARRA program since its inception on February 17, 2009, through March 31, 2010, is $74,378.20. None of these expenditures are properly supported by time and effort reports.
Cause	The DNREC, State Energy Office personnel were unaware of the time and effort reporting requirement.
Effect	Salary and related costs allocated to the State Energy Program are not appropriately supported by time and effort reports and are not in compliance with OMB Circular A-87.
Recommendation	The DNREC, State Energy Office should complete and retain time and effort reporting certifications as required by Federal OMB.
Questioned Costs	Questioned costs are not determinable, but could be no more than $223,260.66, the total amount of salary and other employment costs charged to the program.
Agency Contact	Rebecca Zink, DNREC Fiscal Administrative Officer

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Name	
Agency Contact Phone Number	(302) 739-9903
Corrective Action Plan	The State Energy Coordinator has arranged with the DNREC Information Technology group for DNREC DEO to be included in the Department's Time-Keeping System (TKS). This will allow for automated time and effort reporting for the Delaware Energy Office staff. This program allows DNREC DEO to appropriately allocate salary and related costs to the State Energy Program and will enable compliance with OMB Circular A-87. From August 2010 forward employees have certified time using an after-the-fact prototype sent to us by the Office of the Auditor of Accounts. The same document, with slight alterations, is used for current time periods until the TKS is installed in DNREC DEO and training occurs.
Finding Status	Fully Corrected. ☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	From August 2010 forward employees have certified time using an after the fact prototype sent to the Department of Energy & Climate (DE&C) from the Auditor's Office for the prior time uncertified. Moving forward employees use a similar prototype to certify their time. DNREC did meet with DE&C to explore the option on using our Time Keeping System (TKS), but it was decided that since the Department of Energy approved the time certification they would not move forward with implementing the use of TKS.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Natural Resources and Environmental Control
Fiscal Year	2010
Reference Number	10-DNR-05
Related Prior Year Findings	N/A
Program Name (CFDA No.)	State Energy Program (81.041, S-81.041)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Reporting (Quarterly Reports to DOE)
Criteria	The State Energy Office is required to report program expenditures in performance reports to the US Department of Energy on a quarterly basis.
Condition	In performing our testing of the December 31, 2009 and June 30, 2010 quarterly performance reports to the Department of Energy, we noted the following variances in the reports for Grant Number DE-EE0000343 where amounts reported as *SEP grant outlays by source: Federal* did not agree to supporting DFMS reports:

Report	**Per DFMS**	**Per Performance Report**	**Variance**
December 31, 2009	$ 35,341.71	$ 61,366.00	$ 26,024.29
June 30, 2010	28,387.78	1,342,218.86	1,313,831.08

Cause	Management oversight regarding the review of information reported in quarterly performance reports submitted to DOE. Federal outlay lines in submitted reports also included non-federal expenditures.
Effect	The amounts reported in the December 31, 2009 and June 30, 2010 quarterly performance reports did not agree to supporting DFMS reports.
Recommendation	We recommend that the DNREC State Energy Office strengthen internal controls to ensure that all appropriate information is reported in quarterly performance reports, and that all amounts reported appropriately reconcile to supporting DFMS reports prior to submission to DOE.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Rebecca Zink, DNREC Fiscal Administrative Officer
Agency Contact Phone Number	(302) 739-9903
Corrective Action Plan	The Department has implemented procedures in regards of Section 1512 and Federal Reports. As stated above the Director of Energy and Climate will verify the data that is submitted to the Department of Energy. All reports submitted to USDOE have been reviewed and approved by the State Energy Program Project Officer, Jose Benitez. Report discrepancies can occur if expenditures have been made and federal funds have not been drawn through the ASAP system. The Department has acknowledged this difference and beginning with the July, 2010 Section 1512 report made sure to allow time for the drawdowns to process to reflex correct figures in both Section 1512 and Federal Reports.
Finding Status	Fully Corrected. ☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of	As described above in the Corrective Action Plan DNREC has acknowledged the difference

Status	in reporting and beginning with the July 2010 Section 1512 report made sure to allow time for the drawdowns to process to reflex correct figures in bot Section 1512 and Federal Quarterly Reports. As described in A-30-DNR-04 we have developed an approval process for approving these reports. Financial Services gathers the appropriate reports needed and it is approved by the Fiscal Administrative Office and they goes to DE&C staff to use in their reports. Once the reports are compiled they are approved by the Director of Energy and Climate.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Natural Resources and Environmental Control
Fiscal Year	2010
Reference Number	10-DNR-06
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Capitalization Grants for Clean Water State Revolving Funds (S-66.458)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Reporting (ARRA 1512)
Criteria	Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients no later that the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009). Aimed at providing transparency into the use of these funds, the recipient reports are required to include the following detailed information: • Total amount of funds received; and of that the amount spent on projects and activities; • A list of those projects and activities funded by name to include: - Description - Completion status - Estimates on jobs created or retained; • Details on sub-awards and other payments.
Condition	In testing the quarterly ARRA 1512 report for the quarter ended March 31, 2010, the Department incorrectly reported two subaward amounts, as well as the number of payments to vendors less than $25,000/award, as noted below: Subaward amounts were transposed for two Sussex County subawards: • Subaward number 12000035 was reported as $640,000. Amount should have been reported as $5,461,503. • Subaward number 12000036 was reported as $5,641,503. Amount should have been reported as $640,000. Seven payments to vendors less than $25,000/award totaling $25,572.50 were reported in the Department's 1512 report. Per supporting DFMS records, there were five payments to vendors that make up the $25,572.50. Only the number of payments was incorrectly reported; the dollar amount reported was properly supported by DFMS.
Cause	Management oversight in the review process for ARRA 1512 reports.
Effect	Without an effective management review control in place to ensure the accuracy of data elements included in the reports prior to submission, the Department may report inaccurate information in quarterly ARRA 1512 reports.
Recommendation	We recommend that the Department enhance existing internal control policies and procedures regarding review of ARRA 1512 reports, that require a management review and approval process over the content of the reports to ensure the accuracy of data elements reported prior to the submission.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Terry Deputy

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency Contact Phone Number	(302) 739-9941
Corrective Action Plan	The Department has in place controls to help ensure correct quarterly ARRA 1512 reports are generated and reported. However, the Department will immediately enhance its review process for quarterly ARRA 1512 reports by creating a spreadsheet to ensure that loan accounts and disbursement balances are correct. The spreadsheet and draft quarterly 1512 reports will be reviewed by the FAB Administrator prior to submitting the final quarterly ARRA 1512 reports.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Natural Resources and Environmental Control
Fiscal Year	2010
Reference Number	10-DNR-07
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Capitalization Grants for Clean Water State Revolving Funds (66.458, S-66.458)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Subrecipient Monitoring, Davis-Bacon Act
Criteria	A pass-through entity is responsible for (1) ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133…and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions. (OMB Circular A-133 Compliance Supplement, Part 3, Section M). A pass-through entity is responsible for evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations. (OMB Circular A-133 Compliance Supplement, Part 3, Section M). Per the grant agreements for the Program: The recipient agrees to: a. Establish all subaward agreements in writing; b. Maintain primary responsibility for ensuring successful completion of the EPA-approved project (this responsibility cannot be delegated or transferred to a subrecipient); c. Ensure that any subawards comply with the standards in Section 210(a)-(d) of OMB Circular A-133 and are not used to acquire commercial goods or services for the recipient; d. Ensure that any subawards are awarded to eligible subrecipients and that proposed subaward costs are necessary, reasonable, and allocable; e. Ensure that any subawards to 501 (c)(4) organizations do not involve lobbying activities; f. Monitor the performance of their recipients and ensure that they comply with all applicable regulations, statutes, and terms and conditions which flow down in the subaward; g. Obtain EPA's consent before making a subaward to a foreign or international organization, or a subaward to be performed in a foreign country; and h. Obtain approval from EPA for any new subaward work that is not outlined in the approved work plan in with 40 CFR Parts 30.25 and 31.30, as applicable.
Condition	We noted that the Program only completes financial subrecipient monitoring (including review of A-133 reports) for entities that have disbursed greater than $500,000 in the prior year. There is no dollar threshold for the requirements of subrecipient monitoring per A-133; the Program misunderstood the $500,000 threshold (which is the threshold of expenditures for an entity to be subject to a single audit) to be the threshold for which a subrecipient had

	to spend from them to be required to be reviewed. As a result, any entity that did not disburse greater than $500,000 in FY2009 was not monitored in FY2010. In testing our sample of five program subrecipients, we noted that two subrecipient A-133 reports were obtained and reviewed in FY2010, Sussex County and Town of Millsboro. However, we noted that the schedule of expenditures of federal awards for each entity did not appropriately identify the correct amount of pass-through amounts from the Department of Natural Resources and Environmental Control (DNREC). DNREC's review process did not identify these issues and did not include follow up on these discrepancies.
Cause	Management was unaware that there is no dollar threshold for subrecipient monitoring, and that monitoring must be completed for all pass-through funds.
Effect	Subrecipients may not be in compliance with the above noted requirements.
Recommendation	We recommend that the Department adhere to its internal control policies and procedures regarding subrecipient monitoring, to ensure that all required subrecipient monitoring activities are completed for program subrecipients. In addition, we recommend that the Department enhance its A-133 report review process for subrecipients to ensure that all issues are identified and documented on the review forms, including docuentation of the follow up procedures completed by DNREC to resolve any issues noted in the review process.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	*Terry Deputy*
Agency Contact Phone Number	(302) 739-9941
Corrective Action Plan	The Department will ensure that its internal control policies and procedures regarding Subrecipient monitoring are followed and implemented as follows. 1. All required subrecipient monitoring activities will be completed for program subrecipients. 2. The A-133 report review process for subrecipients will be enhanced to identify and document issues and concerns on review forms, including any necessary follow-up procedures to be completed by the Department to resolve issues documented in the review process.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Natural Resources and Environmental Control
Fiscal Year	2010
Reference Number	10-DNR-08
Related Prior Year Findings	N/A
Program Name (CFDA No.)	State Energy Program (81.041, S-81.041)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Reporting
Criteria	The State Energy Office is required to report program expenditures in federal financial reports, Form SF-425, to the US Department of Energy on a quarterly basis.
Condition	In performing our testing of the June 30, 2010 quarterly SF-425 reports to the Department of Energy, we noted that the report for federal grant number DE-EE0000342 (State SAI number S9031803) included total cash disbursements (line b) and total federal share of expenditures (line e) of $10,908,752.96. We noted that $10,110,000 of these reported amounts relate to funds moved from DNREC to the SEU. Because both DNREC and the SEU are both a part of the entity of the State of Delaware, the $10.1M was not expended in the fiscal year. As a result, total cash disbursements (line b) and total federal share of expenditures (line e) are both overstated by $10,110,000.
Cause	Management oversight regarding the review of information reported in quarterly performance reports submitted to DOE, and the misclassification of the SEU as a subrecipient.
Effect	The amounts reported in the June 30, 2010 SF-425 report for federal grant number DE-EE0000342 (State SAI number S9031803) are overstated.
Recommendation	We recommend that the DNREC State Energy Office strengthen internal controls to ensure that all appropriate information is reported in quarterly SF-425 reports, and that all amounts reported appropriately reconcile to actual expenditures prior to submission to DOE.
Questioned Costs	Questioned costs are $10,110,000, the amount included in the total cash disbursements and total federal share of expenditure lines that was not expended during fiscal year 2010.
Agency Contact Name	Rebecca Zink, DNREC Fiscal Administrative Officer
Agency Contact Phone Number	(302) 739-9903
Corrective Action Plan	The Department has implemented procedures in regards of Section 1512 and Federal Reports. As stated above the Director of Clean Energy and Climate Policy who serves as the State Energy Coordinator will verify the data that is submitted to the Department of Energy. All reports submitted to USDOE have been reviewed and approved by the State Energy Program Project Officer, Jose Benitez. The Department along with Division of Accounting and Department of Energy are currently working on the finding in regards to SEU being a blended component and not a subrecipient. DNREC has reached out to The Department of Energy and is awaiting a response, we are planning to have a response and collaborate with Division of Accounting by April 30th, 2011.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐

Description of Status	DNREC has changed its approval process in regards to Section 1512 and Quarterly 425 reporting. We are using reports that show approved and posted documents in which the Fiscal Administrative Office approves. These reports and figures are then sent to the Department of Energy & Climate for them to approve. DNREC has also worked with the Division of Accounting and Department of Energy and it was determined that the SEU is a blended component unit and was included in the 2011 State CAFR. Since the finding the SEU is working with an outside accounting firm to create a compliant financial statement and they are auditing each of their accounts; DNREC is hopeful to have a compliant financial statement by June 2012.
Anticipated Completion Date (if not Fully corrected).	The anticipated completion date for this finding is June 2012.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Agriculture
Fiscal Year	2010
Reference Number	10-AGR-01
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Farm and Ranch Lands Protection Program (10.913)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Cash Management
Criteria	Per terms of Cooperative Agreement 73.21J2.7.13, dated June 25, 2007, *V. Payments*: At a minimum, the following information shall be included in, or attached to, the SF-270: (1) the name of the State of Delaware or the Foundation; (2) this cooperative agreement number; (3) conservation easement number; (4) landowner name; (5) landowner's tax identification number (TIN) or social security number; (6) total amount of dollars paid to the landowner for the conservation easement, specifying the CCC share and the non-CCC share of the conservation easement cost; (7) term the conservation easement; (8) acres acquired; (9) Tax Identification number for the State of Delaware or the Foundation; (10) Federal Information Processing Standards (FIPS) number for the State of Delaware or the Foundation; (11) Bank routing number and account number for desired deposit location; and (12) Copy of OGC approved conservation easement deed; (13) Current appraisal conducted in accordance with NRCS policies and procedures, UASFLA and USPAP standards; (14) NRCS CPA-230, Confirmation of Matching Funds; and (15) The amount paid for the ALTA US title insurance policy (09/28/91) for each easement and (16) Copy of the ALTA US title insurance policy (09/28/91) for each easement. Per terms of Cooperative Agreement 73.21J2.9.13, dated July 24, 2009, *VII. Payments*: At a minimum, the following information shall be included in, or attached to, the SF-270, prior to Natural Resources Conservation Service (NRCS) accepting the conservation easement and disbursing payment: (1) the name of the Foundation; (2) this cooperative agreement number; (3) conservation easement numbers (if applicable); (4) landowner name; (5) landowner's tax identification number (TIN) or social security number; (6) total amount of dollars paid to the landowner for the conservation easement, specifying the CCC share and the non-CCC share of the conservation easement cost; (7) term the conservation easement; (8) acres acquired for each conservation easement; (9) Tax Identification number (TIN) for the Foundation; (10) Federal Information Processing Standards (FIPS) number for the State of Delaware or

	the Foundation; (11) Bank routing number and account number for desired deposit location; and (12) Copy of recorded Conservation Easement Deed(s) for each easement; (13) NRCS CPA-230, Confirmation of Matching Funds; and (14) Copy of the ALTA US title insurance policy (09/28/91) for each easement.
Condition	In performing our testing of the SF-270 reports filed in fiscal year 2010, we noted that, although the Program had the following information in their records and projects files, the following information was not included in, or attached to, the SF-270 reporting package submitted to the federal government: SF 270 Reporting Packages related to Cooperative Agreement 73.21J2.7.13 The reporting package did not include the following required information: (4) landowner name; (5) landowner's tax identification number (TIN) or social security number; (8) acres acquired; (10) Federal Information Processing Standards (FIPS) number for the State of Delaware or the Foundation; (11) Bank routing number and account number for desired deposit location; (12) Copy of OGC approved conservation easement deed; (13) Current appraisal conducted in accordance with NRCS policies and procedures, UASFLA and USPAP standards; (14) NRCS CPA-230, Confirmation of Matching Funds; and (15) The amount paid for the ALTA US title insurance policy (09/28/91) for each easement and (16) Copy of the ALTA US title insurance policy (09/28/91) for each easement. SF 270 Reporting Packages related to Cooperative Agreement 73.21J2.9.13 The reporting package did not include the following required information: (4) landowner name; (5) landowner's tax identification number (TIN) or social security number; (8) acres acquired for each conservation easement; (10) Federal Information Processing Standards (FIPS) number for the State of Delaware or the Foundation; (11) Bank routing number and account number for desired deposit location; (12) Copy of recorded Conservation Easement Deed(s) for each easement; (13) NRCS CPA-230, Confirmation of Matching Funds; and (14) Copy of the ALTA US title insurance policy (09/28/91) for each easement.
Cause	Management oversight regarding the review of information reported in, or attached to, SF-270 forms.
Effect	The Delaware Department of Agriculture (DDA) did not comply with the terms of their cooperative agreements regarding information required to be submitted in, or attached to, SF-270 forms.
Recommendation	We recommend that DDA strengthen internal controls to ensure that all appropriate information is reported in, or attached to, SF-270 forms in accordance with Cooperative Agreement terms.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Michael McGrath
Agency Contact Phone Number	(302) 698-4500
Corrective	Checklists of all documents and information to be included in SF-270 Reporting

STATE OF DELAWARE
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Action Plan	Packages related to Cooperative Agreements 73.21J2.7.13 and 73.21J2.9.13 have been prepared and will be used to ensure that all of the necessary materials excluded from previous Reporting Packages will be included in future Reporting Packages.
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected. ☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	This finding was partially corrected and has been carried forward to FY 2011. See Finding 11-AGR-03.
Anticipated Completion Date (if not Fully corrected).	This will be implemented with the next quarterly report for the months of January 2012 – March 2012.

Agency	Department of Agriculture
Fiscal Year	2010
Reference Number	10-AGR-02
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Farm and Ranch Lands Protection Program (10.913)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Reporting
Criteria	Delaware Department of Agriculture (DDA) is required to report actual expenditures on a quarterly basis on the Standard Form (SF-425), Financial Status Report.
Condition	In performing our testwork of eight quarterly financial reports (two for each quarter in fiscal year 2010, one for each Cooperative Agreement), we noted that DDA incorrectly reported several key elements in the SF- 425 forms submitted during fiscal year 2010, including cash disbursements, cash on hand, total federal funds authorized, unobligated balance of federal funds, total recipient share required, recipient share of expenditures, and remaining recipient share to be provided. As a result, the SF-425 reports did not properly reconcile to supporting DFMS reports and grant agreements. The table below details the exceptions noted in our testing of SF-425 reports:

Quarter End Date of Report (Appropriation #)	**Line Item**	**Amount Reported on submitted SF-425**	**Amount that should have been reported**	**Variance - (Under)/Over reported**
September 30, 2009 (1507)	b. Cash Disbursements	-	3,150,115.33	(3,150,115.33)
	c. Cash on Hand	-	(3,150,115.33)	3,150,115.33
	d. Total Federal funds authorized	95,161,006.66	9,374,036.33	85,786,970.33
	h. Unobligated balance of Federal funds	92,010,891.33	6,223,921.00	85,786,970.33
				-
September 30, 2009 (1509)	i. Total recipient share required	-	1,850,370.91	(1,850,370.91)
	k. Remaining Recipient share to be provided	-	1,850,370.91	(1,850,370.91)
				-

	December 31, 2009 (1507)	a. Cash Receipts	-	3,150,115.33	(3,150,115.33)
		b. Cash Disbursements	-	3,392,986.99	(3,392,986.99)
		c. Cash on Hand	-	(242,871.66)	242,871.66
		i. Total recipient share required	-	9,374,036.33	(9,374,036.33)
		j. Recipient share of expenditures	-	3,392,986.99	(3,392,986.99)
		k. Remaining Recipient share to be provided	-	5,981,049.34	(5,981,049.34)
					-
	December 31, 2009 (1509)	b. Cash Disbursements	-	5,504,742.02	(5,504,742.02)
		c. Cash on Hand	-	(5,504,742.02)	5,504,742.02
		i. Total recipient share required	-	1,850,370.91	(1,850,370.91)
		j. Recipient share of expenditures	-	1,850,370.91	(1,850,370.91)
					-
	March 31, 2010 (1507)	i. Total recipient share required	-	9,374,036.33	(9,374,036.33)
		j. Recipient share of expenditures	-	3,392,986.99	(3,392,986.99)
		k. Remaining Recipient share to be provided	-	5,981,049.34	(5,981,049.34)
					-
	March 31, 2010 (1509)	j. Recipient share of expenditures	-	1,850,370.91	(1,850,370.91)
					-
	June 30, 2010 (1507)	i. Total recipient share required	-	9,374,036.33	(9,374,036.33)

		j. Recipient share of expenditures	-	3,392,986.99	(3,392,986.99)
		k. Remaining Recipient share to be provided	-	5,981,049.34	(5,981,049.34)

Cause	Management oversight regarding the review of expenditures reported in SF-425 forms.
Effect	DDA did not accurately report several amounts (as detailed above) in the SF-425 forms for each quarter to the US Department of Agriculture for the periods ended September 30, 2009, December 31, 2009, March 31, 2010, and June 30, 2010.
Recommendation	We recommend that DDA strengthen internal controls to ensure that the identification of errors in reporting information occurs prior to submission of the SF-425 Form to the US Department of Agriculture. In addition, we recommend that DDA submit revised SF-425 forms for the quarters ended September 30, 2009, December 31, 2009, March 31, 2010, and June 30, 2010 to correct the errors noted in each respective report.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Michael McGrath
Agency Contact Phone Number	(302) 698-4500
Corrective Action Plan	Revised SF-425 Forms for the Quarters referenced above have been submitted. Errors on these forms were made due to the preparer's lack of familiarity with SF-425. The preparer now has a better understanding of SF-425 and has contacted the USDA for additional instructions which have now been received. With the preparer's increased experience and the instructions from the USDA to guide her, we expect that all future SF-425 Forms will be prepared and submitted correctly.
Finding Status	Fully Corrected. ☐ Not Corrected or Partially Corrected. ☒ Action taken different than original Corrective Action Plan. ☐ No longer warranting further action. ☐
Description of Status	Reviewed revised FY2010 reports noting that all necessary corrections were made. We did note that FY2011 reports had similar errors, see finding 11-AGR-04.
Anticipated Completion Date (if not Fully corrected).	Immediately.

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Agency	Department of Agriculture
Fiscal Year	2010
Reference Number	10-AGR-03
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Farm and Ranch Lands Protection Program (10.913)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Special Tests and Provisions (Property Monitoring Site Visits)
Criteria	Per terms of Cooperative Agreement, the Department of Agriculture is required to submit annual monitoring reports on the status of each easement to NRCS.
Condition	For nine of 15 properties tested, we noted that the Department of Agriculture did not perform annual property monitoring site visits for the respective properties during fiscal year 2010. We did note, however, that management did perform these site visits in the summer of 2010 when they identified that the required site visits had not been completed in accordance with terms of the grant agreement.
Cause	Management oversight and a lack of controls in place to identify properties that are due for annual property monitoring site visits.
Effect	The Delaware Department of Agriculture (DDA) did not comply with the terms of their cooperative agreements regarding property monitoring site visits.
Recommendation	We recommend that DDA strengthen internal controls to ensure that all property monitoring site visits are completed annually and submitted to NRCS in accordance with Cooperative Agreement terms.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Michael McGrath
Agency Contact Phone Number	(302) 698-4500
Corrective Action Plan	A new workflow policy has been implemented to insure that all Federal properties are monitored and reported on every eleven months, and that non-Federal properties are monitored and reported on every twenty-three months. This workflow includes Management frequently examining the work of those entrusted with monitoring and reporting on these properties to make sure the workflow does not fall behind schedule.
Finding Status	Fully Corrected. ☐ Not Corrected or Partially Corrected. ☒ Action taken different than original Corrective Action Plan. ☐ No longer warranting further action. ☐
Description of Status	We tested 15 properties for monitoring visits during FY2011 noting no exceptions.
Anticipated Completion Date (if not Fully corrected).	Immediately.

STATE OF DELAWARE
Summary Status of Prior Year Findings
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Agency	Department of Transportation
Fiscal Year	2010
Reference Number	10-DOT-01
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Highway Planning & Construction Cluster (20.205, S-20.205, 20.219)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Subrecipient Monitoring
Criteria	When a subrecipient is given award money from the pass through entity, the pass through entity must ensure that they have properly identified to the subrecipeient the terms of the award, that they must comply with federal requierments, ensure they are effectively monitoring the subrecipient, and that the subrecipient is conducting an audit every year if expending more than $500,000 of federal funds. A Pass Through Entity is responsible for: *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
Condition	DelDOT personnel were not aware that the Highway Planning and Construction Program had subrecipients but still had controls in place to monitor their one Subrecipient, City of Rehoboth. However, they were only requiring them to have a pre-award and post award audits therefore not meeting the federal regulation that all subrecipients expending more than $500,000 of federal funds during the fiscal year must have a single audit performed within 9 months of the subrecipient's year-end.
Cause	DelDOT personnel were not aware that that Highway Planning & Construction Program had subrecipients and therefore were not requiring their one subrecipient to have an audit performed during the year for expending more than $500,000 of federal funds as is required by federal regulations.
Effect	A subrecipient receiving federal money may not be meeting federal requirements during the year that could be discovered during the subrecipient audit.
Recommendation	We recommend that DelDOT put procedures in place to ensure that subrecipients conduct single audits every year that they expend more than $500,000 in federal funds, and that DelDOT has controls in place to ensure that the Department effectively monitors these audits and any findings that arise from the audits, when applicable.
Questioned Costs	The Department incurred $4,812,238.72 in project costs for the subrecipient, City of Rehoboth, where all required monitoring was not completed.

STATE OF DELAWARE
Summary Status of Prior Year Findings
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Agency Contact Name	Bill Newnom
Agency Contact Phone Number	(302) 760-2053
Corrective Action Plan	DelDOT personnel were aware that the City of Rehoboth was a sub-recipient, and the 1512 reports are filed showing the City of Rehoboth as a sub-recipient for the Boardwalk project. DelDOT management made the City of Rehoboth Beach aware that they were a subrecipient through contract verbiage and email communications. The City has had the required annual single audits performed by a CPA firm, and the single audit data was submitted to the Federal Audit Clearinghouse by the City of Rehoboth Beach (the latest submission occurred on January 4, 2011 for fiscal year ending March 31, 2010) . The Boardwalk project is audited annually with interim quarterly reports submitted by DelDOT to FHWA, as are all ARRA projects. Our internal audit group attended project pre-bid meetings, preconstruction meetings, physically walked the project limits and conducted numerous site visits to insure requirements were met. They also conducted labor interviews contractor employees to insure compliance with Davis-Bacon wage rates as well as to document construction activities and progress. A recent FHWA review of DelDOT's ARRA projects resulted in the following observation: "During the course of the FHWA NRTeam ELG/billing review of ARRA projects in Delaware, December 06-10, 2010, the following successful practices were observed: (1) The DelDOT Audit Division has committed its entire staff to review 100% of the ARRA projects in Delaware each quarter. This dedication of critical audit resources in providing additional oversight for ARRA projects should go far toward enhancing the overall integrity of the ARRA program in Delaware. (2) The DelDOT Finance Division performs monthly reconciliations at the program fund code level of the federal-aid obligations/expenditures in the State DOT's accounting system (FACTS) with the obligations/expenditures in the FHWA FMIS system. This is a valuable internal control, providing assurance to both DelDOT and FHWA that the obligations/expenditures in the State's accounting system and the FHWA FMIS system are in agreement".
Finding Status	Fully Corrected. ☒ Not Corrected or Partially Corrected. ☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DelDOT has developed an Official Policy for management and monitoring of subrecipent grantees and has performed interim quarterly reviews. This ARRA project is completed and the final quarterly memo #12-024 was issued on 7/20/11. The FHWA Division Office accepted issued a management decision on 8/29/11 in which it closed this finding.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
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Agency	Department of Transportation
Fiscal Year	2010
Reference Number	10-DOT-02
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Federal Transit Cluster (20.500, S-20.500, 20.507, S-20.507)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Subrecipient Monitoring
Criteria	When a subrecipient is given award money from the pass through entity, the pass through entity must ensure that they have properly identified to the subrecipeient the terms of the award, that they must comply with federal requirements, ensure they are effectively monitoring the subrecipient, and that the subrecipient is conducting an audit every year if expending more than $500,000 of funds. A Pass Through Entity is responsible for: *Subrecipient Audits* – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
Condition	DelDOT/DTC personnel were not aware that the Federal Transit Cluster Program had subrecipients but still had controls in place to effective monitor their one Subrecipient, National Railroad Passenger Company. However, they were only requiring them to have a pre-award and post award audits therefore not meeting the federal regulation that all subrecipients expending more than $500,000 of federal funds during the fiscal year must have an audit performed within 9 months of the subrecipient's year-end.
Cause	DelDOT/DTC personnel were not aware that that Federal Transit Cluster Program had subrecipients and therefore were not requiring their one subrecipient to have an audit performed during the year for expending more than $500,000 of federal funds as is required by federal regulations.
Effect	A subrecipient receiving federal money may not be meeting federal requirements during the year that could be discovered during the subrecipient audit.
Recommendation	We recommend that DelDOT/DTC put procedures in place to ensure that its subrecipients expending more than $500,000 in federal funds in any fiscal year are conducting audits that year and that DelDOT/DTC have controls in place to ensure that they effectively monitor these audits and any findings that arise from the audits, when applicable.
Questioned Costs	The program incurred $2,658,675.18 in program costs for which all subrecipient monitoring was not completed.
Agency Contact	Bill Newnom

STATE OF DELAWARE
Summary Status of Prior Year Findings
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Name	
Agency Contact Phone Number	(302) 760-2053
Corrective Action Plan	DelDOT agrees with this finding. While the Department closely monitors subrecipient's activities and ensures that Single Audits are performed and filed with the appropriate Federal agencies. The Department's Internal Audit section is heavily involved with monitoring all subrecipients, from pre-award audits, concurrent expenditure reviews, quarterly Federal reports (for ARRA projects) to post audits. In this particular case, however, Amtrak, due to the fact that they own the station and are their own vendor, were classified as a vendor and as such limited our monitoring to payments made to them. In response to the finding above, the Department has recently amended our Audit Policy Implement Number A-08 to add a section on subrecipient monitoring.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	This finding was closed by FTA as per their letter dated May 18, 2011.
Anticipated Completion Date (if not Fully corrected).	

Agency	Department of Transportation
Fiscal Year	2010
Reference Number	10-DOT-03
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Federal Transit Cluster (S-20.500, S-20.507)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Special Tests – Separate Accountability for ARRA Funding
Criteria	When a recipient receives ARRA funding, the Federal Agency must require recipients to agree to maintain records that identify adequately the source and application of ARRA awards. As such, recipients such as DelDOT/DTC who received ARRA funding for the Federal Transit Cluster Program for the FY10, should have a control in place to ensure they are identifying adequately the source and application of ARRA awards. Depending on the type of organization undergoing audit, the administrative requirements that apply to most programs arise from two sources: • A-102 Common Rule • OMB Circular A-110 There are also some other administrative compliance requirements contained in regulations that are not of the type covered in the A-102 Common Rule or OMB Circular A-110, that are unique to specific programs. Federal programs excluded from the A-102 Common Rule are listed in Appendix I of the Supplement. The financial management system must permit the preparation of required reports and tracing of funds adequate to establish that funds were used for authorized purposes and allowable costs. Reporting requirements are contained in the criteria discussed above, and may also be contained in applicable legislation, Federal awarding agency and program regulations, and award terms and conditions. As provided in 2 CFR section 176.210, Federal agencies must require recipients to (1) agree to maintain records that identify adequately the source and application of ARRA awards; (2) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (3) provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC. Additional information, including presentation requirements for the SEFA and SF-SAC, is provided in Appendix VII.
Condition	We noted that there is no control in place that ensures the system is configured in such a way to denote what is an ARRA expenditure under the Federal Transit Cluster. Earl Timpson, Assistant Director, notes that while the system (BACIS, FACTS) will show some expenditures as being ARRA, there is no consistency as to when an ARRA project is denoted as ARRA or not.
Cause	DelDOT/DTC did not have any controls in place to ensure the system (BACIS, FACTS)

	denotes what an ARRA expenditure is versus non-ARRA Expenditure. As such, there is no consistency when looking up ARRA related projects and expenditures as to if the system will indicate if it is ARRA related or not.
Effect	The Federal Transit Cluster could be incorrectly recording total ARRA expenditures on their SEFA and other related required reports.
Recommendation	We recommend that DelDOT/DTC be more consist and put controls in place for separate accountability of ARRA funding such as populating a grant number in FACTS at the project level that would be used only for ARRA expenditures.
Questioned Costs	Not applicable as finding relates to program administration and reporting.
Agency Contact Name	Bill Newnom
Agency Contact Phone Number	(302) 760-2053
Corrective Action Plan	We believe that DelDOT did have adequate controls in place to ensure the system denoted ARRA expenditures versus non-ARRA expenditures. All FHWA ARRA projects were given specific special Federal Apportionment Codes that were entered into the BACIS accounting system and FMIS Federal tracking system. BACIS system reports showed these Federal apportionment codes and the indicator "ORRA" or "ERRA" in the vendor title when reports were run in BACIS. Unlike the FHWA, the FTA did not allocate ARRA funds with separate apportionment codes. They did, however, require that all ARRA funds be applied to separate grants. As soon as DelDOT identified the grant applicable to specific ARRA allocations, separate projects were established for the individual grants and were tracked in BACIS and FACTS accordingly. DelDOT applied only ARRA funds on the identified specific grant/project. As an added control, the Division of Finance established an internal ARRA coordinator to monitor all FTA allotments and expenditures to ensure that all ARRA funds were allotted to the specifically identified grant. In addition the FHWA National Review Team (NRT) reviewed DelDOT's processes regarding ARRA projects; the following observation was noted within the close-out report from this audit: "During the course of the FHWA NRTeam ELG/billing review of ARRA projects in Delaware, December 06-10, 2010, the following successful practices were observed: (1) The DelDOT Audit Division has committed its entire staff to review 100% of the ARRA projects in Delaware each quarter. This dedication of critical audit resources in providing additional oversight for ARRA projects should go far toward enhancing the overall integrity of the ARRA program in Delaware. (2) The DelDOT Finance Division performs monthly reconciliations at the program fund code level of the federal-aid obligations/expenditures in the State DOT's accounting system (FACTS) with the obligations/expenditures in the FHWA FMIS system. This is a valuable internal control, providing assurance to both DelDOT and FHWA that the obligations/expenditures in the State's accounting system and the FHWA FMIS system are in agreement".
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DelDOT has added a grant field into the FACTS program to track funds dedicated for these tasks/projects.

Anticipated Completion Date (if not Fully corrected).	October 2011 – As per FTA's letter received by DelDOT October 27, 2011, FTA determined that DelDOT has implemented a financial reporting system that generates the required reports which addresses the finding.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Transportation
Fiscal Year	2010
Reference Number	10-DOT-04
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Highway Planning & Construction Cluster (S-20.205)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Reporting (Section 1512)

Criteria	Section 1512 of the Recovery Act requires reporting on the use of Recovery Act fuding by recipients no later than the 10th day after the end of each calandar quarter. The Section 1512 Reports must contain specific data elements which must agree to records and data reports and be presented in accordance with ARRA Section 1512 reporting requirements.
	
	Per the Implementation Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009, attachment to M-09-21 memorandum, the following was noted:
	
	<u>Section 2.1</u> Section 1512 of the Recovery Act requires reports on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009) and for the Federal agency providing those funds to make the reports publicly available no later than the 30th day after the end of that quarter. Aimed at providing transparency into the use of these funds, the recipient reports are required to include the following detailed information:
	• Total amount of funds received; and of that, the amount spent on projects and activities;
	• A list of those projects and activities funded by name to include:
	  • Description
	  • Completion status
	  • Estimates on jobs created or retained;
	• Details on sub-awards and other payments.
	
	<u>Section 4.2</u> defines a Prime Recipient's responsibilities as:
	• Owns recipient data and sub-recipient data
	• Initiates appropriate data collection and reporting procedures to ensure that Section 1512 –reporting requirements are met in a timely and effective manner
	• Implements internal control measures as appropriate to ensure accurate and complete information
	• Performs data quality reviews for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and working with the designated subrecipient to address any data quality issues"
	
	<u>Section 4.4</u> additionally notes Recipients and sub-recipients reporting Section 1512 data into the www.FederalReporting.gov solution must initiate a review of the data both prior to, and following, the formal submission of data. The post-submission review period runs from the 11th day of the reporting month to the 21st day of the reporting month for prime recipients. During this post-submission review period, significant reporting errors or material omissions

	that are discovered can be corrected using the www.FederalReporting.gov solution. Specific instructions for submitting new or corrected data will be provided on the www.FederalReporting.gov website. The prime recipients are responsible for reviewing data submitted by sub-recipients. Where a recipient identifies a data quality issue with respect to information submitted by the sub-recipient, the recipient is required to alert the relevant sub-recipient of the nature of the problem identified by the recipient. All corrections by recipients and sub recipients during this phase of the review must be transmitted by the 21st day of the reporting month.
Condition	DelDOT personnel were not aware that expenditures related to specific vendors/contractors incurred during the year should have been reported on the Section 1512 Reports. As such, 7 out of the 8 Highway Planning & Construction Program Section 1512 Reports we tested for the Quarter ending March 31, 2010 did not correctly agree to the system data expenditure listing as of 3/31/10 but was understated by $398,063.
Cause	DelDOT personnel were not aware that expenditures related to specific vendors/contractors incurred during the year should have been reported on the Section 1512 Reports. This is a result of the lack of a clear reconcilation of the ARRA Reports to the BACIS ledger.
Effect	The Section 1512 Reports are not correctly reporting the total ARRA expenditures for each quarterly report.
Recommendation	We recommend that that DelDOT create controls to ensure that Section 1512 Reports are including all expenditures to date and agree to system detail.
Questioned Costs	The expenditures reported were allowable per program requirements but were understated in the 1512 report by $398,063.
Agency Contact Name	Bill Newnom
Agency Contact Phone Number	(302) 760-2053
Corrective Action Plan	As with many new programs, there was some confusion as to reporting requirements regarding materials, etc.; however, when mistakes were discovered we immediately took steps to correct the reported amounts. DelDOT's financial system can track ARRA funds in a manner adequate to establish that funds were used for authorized purposes. We have improved our tracking of expenditures to correctly attribute project expenditures when multiple federal sponsoring agencies are involved. We are taking steps to ensure that all future 1512 reports are correct.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DelDOT has implemented controls to ensure the 1512 reports are complete and properly reconcile to the accounting system. There were no related findings noted in the current year.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Transportation
Fiscal Year	2010
Reference Number	10-DOT-05
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Federal Transit Cluster (S-20.500, S-20.507)
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	Reporting (Section 1512)

Criteria	Section 1512 of the Recovery Act requires reporting on the use of Recovery Act fuding by recipients no later than the 10th day after the end of each calandar quarter. The Section 1512 Reports must contain specific data elements which must agree to records and data reports and be presented in accordance with ARRA Section 1512 reporting requirements.
	
	Per the Implementation Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009, attachment to M-09-21 memorandum, the following was noted:
	
	<u>Section 2.1</u> Section 1512 of the Recovery Act requires reports on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009) and for the Federal agency providing those funds to make the reports publicly available no later than the 30th day after the end of that quarter. Aimed at providing transparency into the use of these funds, the recipient reports are required to include the following detailed information:
	• Total amount of funds received; and of that, the amount spent on projects and activities;
	• A list of those projects and activities funded by name to include:
	  • Description
	  • Completion status
	  • Estimates on jobs created or retained;
	• Details on sub-awards4 and other payments.
	
	<u>Section 4.2</u> defines a Prime Recipient's responsibilities as:
	• Owns recipient data and sub-recipient data
	• Initiates appropriate data collection and reporting procedures to ensure that Section 1512 –reporting requirements are met in a timely and effective manner
	• Implements internal control measures as appropriate to ensure accurate and complete information
	• Performs data quality reviews for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and working with the designated subrecipient to address any data quality issues"
	
	<u>Section 4.4</u> additionally notes Recipients and sub-recipients reporting Section 1512 data into the www.FederalReporting.gov solution must initiate a review of the data both prior to, and following, the formal submission of data. The post-submission review period runs from the 11th day of the reporting month to the 21st day of the reporting month for prime recipients. During this post-submission review period, significant reporting errors or material omissions

	that are discovered can be corrected using the www.FederalReporting.gov solution. Specific instructions for submitting new or corrected data will be provided on the www.FederalReporting.gov website. The prime recipients are responsible for reviewing data submitted by sub-recipients. Where a recipient identifies a data quality issue with respect to information submitted by the sub-recipient, the recipient is required to alert the relevant sub-recipient of the nature of the problem identified by the recipient. All corrections by recipients and sub-recipients during this phase of the review must be transmitted by the 21st day of the reporting month.
Condition	DelDOT personnel were not aware that some expenditures incurred during the year should have been reported on the Section 1512 Reports. As such, the Federal Transit Cluster Section 1512 Report we were required to test for the Quarter ending March 31, 2010 did not correctly agree to the system data expenditure listing as of 3/31/10 but was understated by $401,208.
Cause	DelDOT personnel were not aware that some expenditures incurred during the year should have been reported on the Section 1512 Reports. This is a result of the lack of a clear reconcilation of the ARRA Reports to to the BACIS ledger.
Effect	The Section 1512 Reports are not correctly reporting the total ARRA expenditures for each report.
Recommendation	We recommend that that DelDOT/DTC create controls to ensure that Section 1512 Reports are including all expenditures to date and agree to system detail.
Questioned Costs	The expenditures reported were allowable per program requirements, but were understated in the 1512 Report by $401,208.
Agency Contact Name	Bill Newnom
Agency Contact Phone Number	(302) 760-2053
Corrective Action Plan	As with many new programs, there was some difficulty in the early implementation of ARRA reporting, which required quick development and implementation of an expenditure tracking system to meet Federal requirements, while receiving changing reporting requirements from the federal government. In this particular case there was a lack of internal communication regarding two projects that were funded through ARRA. When the errors were discovered, steps were taken to immediately correct the reported amounts. DelDOT's financial system can track ARRA funds in a manner adequate to establish that funds were used for authorized purposes. We are taking steps to ensure that all future 1512 reports are correct.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As per FTA's letter dated June 6, 2011, they accepted DelDOT's updated responses that they illustrated splits for FHWA and FTA appropriations and will "review and monitor future reports to ensure proposed action will result in the submission of the correct financial information." They will reopen if any weakness is found. This finding is closed by FTA. However, KPMG did note unsupported amounts reported in the March 31, 2011 Section 1512 report as noted in finding 11-DOT-01.

Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Office of Management and Budget
Fiscal Year	2010
Reference Number	10-OMB-01
Related Prior Year Findings	N/A
Program Name (CFDA No.)	All
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Suspension and Debarment
Criteria	Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).
Condition	The State has implemented a "boiler-plate" contract which states that they (the vendor) are neither suspended nor debarred from Federal procurement and non-procurement transactions. Management reviews vendor authorizations to the above. However, for 9 of 10 contracts selected, there was no evidence that management reviewed vendors from being suspended or debarred, as the contracts reviewed were operating under amended contracts and original contract did not include the suspension or debarment language.
Cause	Contract amendments standard language has not been updated to include suspension and debarment language for modification to contracts prior to FY09 or to contract extensions.
Effect	The vendor could potentially be suspended or debarred from the State vendor list at the time of the amendment.
Recommendation	We recommend that all new contracts and amendments include the new suspended and debarred language consistent with the State's "boiler-plate" contract language stating that the vendor is neither suspended nor debarred from Federal procurement and non-procurement transactions.
Questioned Costs	There are no questioned costs associated with this finding as the vendors selected were not on the EPLS listing.
Agency Contact Name	W. Peter Teague, Contract Procurement Administrator
Agency Contact Phone Number	(302) 857-4552
Corrective Action Plan	Government Support Services (GSS) will revise its Boilerplate Documents, Policy & Procedure, and related Contract Officer Checklists to include review of vendor suspension and debarment.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐

	No longer warranting further action.☐
Description of Status	
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Office of Management and Budget
Fiscal Year	2009
Reference Number	09-OMB-01
Related Prior Year Findings	N/A
Program Name (CFDA No.)	All
Type of Finding	Noncompliance, Significant Deficiency
Compliance Requirement(s)	N/A
Criteria	The State shall prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the audited financial statements. Determination of an entity's Federal award expenditures is based on when the activity related to the award occurs. (OMB Circular A-133, §___.300(b) and §___.205(a))
Condition	The State has a limited number of Federal grant awards where the award is expended by one State agency and the request for Federal reimbursement is made by another State agency. The two State agencies enter into an agreement in which one agency reimburses the other agency, via intergovernmental voucher, for the Federal program expenditures they incur. The reimbursing agency requests the drawdown of Federal funds. This process results in timing differences since the Federal program expenditures are not recorded in the State's accounting system until the intergovernmental vouchers are processed. Based on the State's analysis of these types of transactions, all reimbursements of such Federal expenditures were reimbursed within 60 days of the fiscal year end. The total dollar amount of these transactions processed in July and August 2009 (Fiscal Year 2010) were $1,066,068, which is immaterial to the Schedule of Expenditures of Federal Awards (SEFA) as a whole.
Cause	The State's management is using a methodology that fails to record Federal awards when amounts are initially expended by the State.
Effect	The State's SEFA does not encompass all Federal expenditures made during the fiscal year. If this practice is continued on a broader scale the amounts may become material to the SEFA in the future. Further, modifying the methodology to ensure the Federal expenditure is captured when the activity related to the award occurs is less likely to result in a misstatement of the SEFA and is a more efficient process for ongoing operations.
Recommendation	The State should either modify its methodology to record these transactions when expended or calculate the exact amount at fiscal year end for inclusion in the SEFA.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Valerie M. Watson; changed to Kristopher Knight as of January 2011.
Agency Contact Phone Number	(302) 672-5500
Corrective Action Plan	Management is assessing its current methodology to ensure that exact costs are captured in the correct period based on timing of the grant expenditure for the SEFA report. Management will address any changes in the new accounting system if necessary.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐

	No longer warranting further action.☐
Description of Status	Corrected with the implementation of the State's new accounting system.
Anticipated Completion Date (if not Fully corrected).	

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Services for Children, Youth, and Their Families
Fiscal Year	2009
Reference Number	09-CYF-01
Related Prior Year Findings	04-CYF-01, 05-CYF-01, 06-CYF-01, 07-CYF-01, 08-CYF-01
Program Name (CFDA No.)	Foster Care – Title IV-E (93.658)
Type of Finding	Disclaimer of Opinion
Compliance Requirement(s)	All
Criteria	Federal regulations require that "The State shall promptly amend the cost allocation plan and submit the amended plan to the Director [U.S. Department of Health and Human Services, Division of Cost Allocation] (DHHS, DCA), if any of the following events occur: • The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures. • A material defect is discovered in the cost allocation plan by the Director, DCA, or the State. • The State plan for public assistance programs is amended so as to affect the allocation of costs. • Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid." (45 CFR §95.509) The DHHS Grants Administration Manual, which outlines the protocols for submission, review, and approval of cost allocation plans developed by State agencies for public assistance programs, specifies that "Cost disallowances will be made for inappropriate claims resulting from a State's failure to comply with its approved cost allocation plan…or its failure to submit an amended plan as required." (Grants Administration Manual 6-200-50).
Condition	The DHHS Office of Inspector General issued report number A-03-03-00562 dated July 6, 2005 covering the five-year audit period October 1, 1998 to September 30, 2003 that stated, in part: "Delaware's cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting federal and State programs. DCA approved Delaware's cost allocation plan 95-1 in March 1999. The plan was effective from October 1998 through September 1999. In December 1999, DCA approved cost allocation plan 95-2, effective October 1999. After approval of plan 95-2, ACF [DHHS, Administration for Children and Families] regional officials noted unanticipated increases in Title IV-E administrative costs. ACF initiated deferral of certain costs claimed for Title IV-E candidates and requested that the Office of Inspector General audit Delaware's claims for Title IV-E administrative and training costs developed under plan 95-2." The report further states that:

	"The [State Department of Services for Children, Youth and Their Families (DSCYF)] Department of Services used the revised 95-2 methodology to allocate candidates' case management costs…during the quarters ended December 1999 through June 2003." And that: "Beginning with the quarter ended September 2003, the Department of Services returned to the earlier method that properly allocated candidate costs to benefiting programs. However, the Department of Services did not amend its cost allocation plan." The report identifies costs of $5,859,542 (federal share) over the five-year period under audit related to the use of the 95-2 methodology, and recommends, in part, that the State "…amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates." DSCYF stated its concurrence with this recommendation in its official response to the audit report, and stated its intention to amend its cost allocation plan in the December 2005-January 2006 time frame, anticipating approval from the Regional Office of the Administration for Children and Families (RO) to pilot a proposed DSCYF foster care candidacy documentation system. DSCYF, in the interim, reverted to the previously approved 95-1 methodology after discussion with DHHS. For the period under audit for purposes of the Single Audit (July 1, 2008 through June 30, 2009), the Foster Care program was not operating under a cost allocation plan submitted in accordance with 45 CFR §95.509 and DHHS Grants Administration Manual Chapter 6-200-50. Costs allocated using the original methodology approved in the 95-1 cost allocation plan for the Foster Care program for the year ended June 30, 2009 were $1,135,673, representing 30% of the total program costs of $3,777,636. In Fiscal Year 2006, the Federal Health and Human Services Inspector General's office audited the Department's allocation of administrative and training costs to the Title IV-E program for which a final report has been issued. As a result of the uncertainty surrounding implementation of a new cost allocation plan related to Foster Care, we will not opine on compliance for this program.
Cause	Differing interpretations of federal regulations concerning allocable costs.
Effect	Failure to obtain timely approval of the cost allocation plan could result in questioned costs.
Recommendation	We recommend that DSCYF continue to work with the DHHS Regional Office in implementing the recommendations included in report A-03-03-00562 which it concurred within a letter dated May 25, 2005 included as an appendix to that report.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Christine L. Kraft, DSCYF Controller
Agency Contact Phone Number	(302) 892-4548
Corrective Action Plan	DSCYF submitted a new Title IV-E Foster Care and Adoption Assistance Cost Allocation Plan (CAP) to the US DHHS Division of Cost Allocation New York, NY, and to the

	Administration for Children and Families Region III Office, Philadelphia PA on August 29, 2011. Both offices have acknowledged receipt of the CAP which contains a new Random Moment Time Sample survey, a proposed methodology for reinstating Foster Care Candidacy (Pre-Placement) claims, and updated allocation schedules that reflect the reorganization of the department as of July 1, 2011. DSCYF has requested that the CAP become effective as of October 1, 2011.
Finding Status	Fully Corrected.☐ Not Corrected or **Partially Corrected**.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Awaiting approval by US DHHS.
Anticipated Completion Date (if not Fully corrected).	December 2011.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Services for Children, Youth, and Their Families
Fiscal Year	2009
Reference Number	09-CYF-02
Related Prior Year Findings	08-CYF-02, 07-CYF-02, 06-CYF-02
Program Name (CFDA No.)	Foster Care – Title IV-E (93.658)
Type of Finding	Significant Deficiency
Compliance Requirement(s)	Eligibility (Provider Approval)
Criteria	The Title IV-E Foster Care child and provider eligibility requirements as outlined in 45 CFR 1356.71 and Section 472 of the Act; the purpose of which are to ensure that appropriate payments were made on behalf of eligible children and to eligible homes and institutions.
Condition	During the week of August 14, 2006, ACF staff from the Central and Regional Offices and State of Delaware staff conducted an eligibility review of Delaware's Title IV-E Foster Care program. A review of a sample of 80 cases was drawn for the review period October 1, 2005 to March 31, 2006. The review team determined 6 cases were ineligible for federal funding and concluded that Delaware's Title IV-E program was not in substantial compliance with federal child and provider eligibility requirements for the review period. During the week of April 2009, ACF staff conducted a follow up eligibility review for the Foster Care program. A review of a sample of one hundred and fifty cases from the period April 1, 2008 through September 30, 2008 was drawn and the program was found to be in substantial compliance with federal eligibility requirements. During fiscal year 2009, we tested 60 case files for provider eligibility requirements. Those files included supporting documentation showing compliance with federal child and provider requirements for the year ended June 30, 2009. However, we noted the internal controls surrounding periodic review of the case files were not being performed timely in accordance with State and agency policies.
Cause	The emphasis of DSCYF is on placing children in need of foster care as quickly as possible.
Effect	Foster care payments may be made to placements that have not met requirements to be an approved foster care provider.
Recommendation	We recommend that DSCYF continue to implement its corrective action plan, which includes enhancement of the controls surrounding foster care provider approval to ensure that approval requirements are met and are periodically reviewed in accordance with State and agency policies.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Christine L. Kraft, DSCYF Controller
Agency Contact Phone Number	(302) 892-4548
Corrective Action Plan	In April 2009, ACF staff conducted a follow up eligibility review for the Foster Care program. The result of that review was the program was in substantial compliance with federal eligibility requirements. In December 2009, SB & Co. conducted an eligibility review for the Foster Care program,

	stating that "periodic review of the case files were not being performed timely in accordance with State and agency policies". Following the April 2009 review conducted by ACF, DSCYF contracted with a consultant to review the business processes for Title IV-E foster care eligibility. The recommendations from that review were received by DSCYF in October 2009. DSCYF has implemented those recommendations. These recommendations have improved the efficiency of the eligibility process. There are no eligibility determinations or redeterminations that are currently in a backlog status. In addition, the federal requirement for a child's eligibility must be reviewed at least annually. In December 2009, DSCYF updated the policy and procedures manual for Title IV-E eligibility to reflect the federal standard of an annual review. The modifications that have been made to the FACTS system have made the determination of eligibility for the Title IV-E Foster Care program more efficient and timely. With respect to the provider eligibility finding listed in 09-CYF-02, DSCYF contracted with MAXIMUS to provide modifications to the FACTS system as recommended during the business review. The modifications which incorporate a historical listing of provider license approval dates with the FACTS system logic that governs the child's outcome for Title IV-E eligibility was completed and implemented in August 2011.
Finding Status	Fully Corrected.☐ Partially Corrected.☒ as of June 30, 2011. Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As of August 2011 FACTS system modifications have been implemented and the determinations backlog cleared. The next ACF review of DSCYF's Title IV-E Foster Care program is scheduled to occur in July 2012.
Anticipated Completion Date (if not Fully corrected).	Fully Corrected August 2011.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Services for Children, Youth, and Their Families
Fiscal Year	2009
Reference Number	09-CYF-03
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Adoption Assistance (93.659)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Allowable Costs
Criteria	Federal regulations require that "The State shall promptly amend the cost allocation plan and submit the amended plan to the Director [U.S. Department of Health and Human Services, Division of Cost Allocation] (DHHS, DCA), if any of the following events occur: • The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures. • A material defect is discovered in the cost allocation plan by the Director, DCA, or the State. • The State plan for public assistance programs is amended so as to affect the allocation of costs. • Other changes occur which make the allocation basis or procedures in the approval cost allocation plan invalid." (45 CFR §95.509) The DHHS Grants Administration Manual, which outlines the protocols for submission, review, and approval of cost allocation plans developed by State agencies for public assistance programs, specifies that "Cost disallowances will be made for inappropriate claims resulting from a State's failure to comply with its approved cost allocation plan…or its failure to submit an amended plan as required." (Grants Administration Manual 6-200-50).
Condition	The U.S. Department of Health and Human Services (DHHS) Office of Inspector General issued report number A-03-03-00562 dated July 6, 2005 covering the five-year audit period October 1, 1998 to September 30, 2003 that stated, in part: "Delaware's cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting federal and State programs. DCA approved Delaware's cost allocation plan 95-1 in March 1999. The plan was effective from October 1998 through September 1999. In December 1999, DCA approved cost allocation plan 95-2, effective October 1999. After approval of plan 95-2, ACF [DHHS, Administration for Children and Families] regional officials noted unanticipated increases in Title IV-E administrative costs. ACF initiated deferral of certain costs claimed for Title IV-E candidates and requested that the Office of Inspector General audit Delaware's claims for Title IV-E administrative and training costs developed under plan 95-2." The report further states that:

	"The [State Department of Services for Children, Youth and Their Families (DSCYF)] Department of Services used the revised 95-2 methodology to allocate candidates' case management costs…during the quarters ended December 1999 through June 2003." And that: "Beginning with the quarter ended September 2003, the Department of Services returned to the earlier method that properly allocated candidate costs to benefiting programs. However, the Department of Services did not amend its cost allocation plan." The report identifies costs of $5,859,542 (federal share) over the five-year period under audit related to the use of the 95-2 methodology, and recommends, in part, that the State "…amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates." DSCYF stated its concurrence with this recommendation in its official response to the audit report, and stated its intention to amend its cost allocation plan in the December 2005-January 2006 time frame, anticipating approval from the Regional Office of the Administration for Children and Families (RO) to pilot a proposed DSCYF foster care candidacy documentation system. DSCYF, in the interim, reverted to the previously approved 95-1 methodology after discussion with DHHS. For the period under audit for purposes of the Single Audit (July 1, 2008 through June 30, 2009), the Adoption Assistance program was not operating under a cost allocation plan submitted in accordance with 45 CFR §95.509 and DHHS Grants Administration Manual Chapter 6-200-50. Costs allocated using the original methodology approved in the 95-1 cost allocation plan for the Adoption Assistance program for the year ended June 30, 2009 were $235,365, representing 12% of the total program costs of $1,914,290. In Fiscal Year 2006, the Federal Health and Human Services Inspector General's office audited the Department's allocation of administrative and training costs to the Title IV-E program for which a final report has been issued.
Cause	Differing interpretations of federal regulations concerning allocable costs.
Effect	Failure to obtain timely approval of the cost allocation plan could result in questioned costs.
Recommendation	We recommend that DSCYF continue to work with the DHHS Regional Office in implementing the recommendations included in report A-03-03-00562 which it concurred within a letter dated May 25, 2005 included as an appendix to that report.
Questioned Costs	Questioned costs are not determinable.
Agency Contact Name	Christine L. Kraft, DSCYF Controller
Agency Contact Phone Number	(302) 892-4548
Corrective Action Plan	DSCYF submitted a new Title IV-E Foster Care and Adoption Assistance Cost Allocation Plan (CAP) to the US DHHS Division of Cost Allocation New York, NY, and to the Administration for Children and Families Region III Office, Philadelphia PA on August 29, 2011. Both offices have acknowledged receipt of the CAP which contains a new Random Moment Time Sample survey, a proposed methodology for reinstating Foster Care

	Candidacy (Pre-Placement) claims, and updated allocation schedules that reflect the reorganization of the department as of July 1, 2011. DSCYF has requested that the CAP become effective as of October 1, 2011.
Finding Status	Fully Corrected.☐ Not Corrected or **Partially Corrected**.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Awaiting approval by US DHHS.
Anticipated Completion Date (if not Fully corrected).	December 2011.

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2011

Agency	Department of Services for Children, Youth, and Their Families
Fiscal Year	2009
Reference Number	09-CYF-04
Related Prior Year Findings	N/A
Program Name (CFDA No.)	Adoption Assistance (93.659)
Type of Finding	Material Noncompliance, Material Weakness
Compliance Requirement(s)	Eligibility
Criteria	Per Federal Regulation (42 USC 675(3)) at the time of or prior to finalization of the adoption, an adoptive parent and the cabinet shall negotiate and sign an adoption assistance agreement which shall: • *Be in effect in accordance with eligibility requirements per 42 U.S.C. 675(3) and 45 C.F.R. 1356.40(b);* • Determine the nature and amount of the adoption subsidy; and • Remain in effect until terminated, even if the adoptive parent moves out of the state
Condition	For nine of the 60 cases selected for test work, although the children were eligible for the program, the adoption agreements were not signed before the order of adoption.
Cause	The emphasis of DSCYF is on placing children in need of adoption as quickly as possible.
Effect	Adoption assistance payments may be made to parent or children placements that have not met federal requirements.
Recommendation	We recommend that DSCYF implement an action plan, which includes enhancement of the controls surrounding adoption agreement approval to ensure that approval requirements are met and are periodically reviewed in accordance with State and agency policies.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Christine L. Kraft, DSCYF Controller
Agency Contact Phone Number	(302) 892-4548
Corrective Action Plan	The errors noted were for placements prior to FY09. Procedures have been instituted which enhance the adoption unit's controls in the area of eligibility as follow: During FY09, all DFS workers, supervisors and staff in administrative positions received Adoption Assessor training which includes procedures relative to adoption approval requirements. During the periods covered by the cases noted in the finding, DFS would open the adoption assistance case the month following the finalized court order. This has been changed to the date of the final order of adoption. Also, DSCYF has worked with the courts to warrant all court orders are now received by DSCYF in a timely fashion. This has been effective in assuring adoption agreements are signed earlier in the adoption process and qualifications for federal assistance are properly documented. FACTS progress notes are generated for all adoptions months before their anniversary dates. Agreements are reviewed to assure they are in compliance with State and agency policies. This process is reviewed by the Family Services Program Manager to assure procedural compliance. FACTS itself has been continually upgraded in and effort to assure DSCYF personnel, including those involved in the adoption process, are aware of time frames, required events, and federal and agency requirements.

	On March 29-30, 2011, ACF Region III Office staff conducted an onsite review of 478 cases that had been identified as eligible for Title IV-E Adoption Assistance payments. The review found that 194 of the cases did not have properly executed adoption assistance agreements in place and/or lacked necessary documentation on file to support the assistance claim. DSCYF ceased claiming Title IV-E Adoption Assistance for all of the cases found in error as of April 1, 2011, and Division of Family Services (DFS) program staff have been working to provide the documentation necessary to reinstate as many of these cases to IV-E eligibility as possible. As a result of DFS' corrective action, and because most of the cases found in error were enacted prior to the original FY09 audit, ACF has notified DSCYF that it will not seek return of the adoption assistance funds and administrative costs for the cases found in error as the result of the March 2011 review. DSCYF has returned a total of $189,650.49 for the initial group of cases that were found ineligible as the result of the original FY09 audit. ACF has stated that it will review the department's Adoption Assistance claims in approximately one year to ensure that the documentation problems found in both the state and federal reviews have been fully corrected. As of the writing of this report, none of the 194 cases found in error have been reinstated to Title IV-E assistance funds. However, ACF is reviewing the documentation submitted by DFS to determine whether some of the cases can be reinstated to eligible status. DSCYF will only reinitiate claiming for individual cases upon written approval from the ACF Region III Office.
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Claiming for ineligible clients has ceased. DFS has implemented corrective procedures to prevent the problem from reoccurring.
Anticipated Completion Date (if not Fully corrected).	